

Annual Report
and Accounts

2019

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Serco Group plc is a leading provider of public services. Our purpose is to be a trusted partner of governments, delivering superb services that transform outcomes and make a positive difference to our fellow citizens.

We gain scale, expertise and diversification by operating internationally across five sectors and four geographies: Defence, Justice & Immigration, Transport, Health and Citizen Services, delivered in the UK, Europe, North America, Asia Pacific and the Middle East.

20+
COUNTRIES

500+
CONTRACTS

50,000+
EMPLOYEES



For more and the latest information please visit our website at:
www.serco.com

Strategic Report

Highlights

Revenue

£3,248m

2018: £2,837m

Underlying Trading Profit

£120.2m

2018: £93.1m

Underlying EPS, diluted

6.16p

2018: 5.21p

Underlying ROIC

15.4%

2018: 13.6%

Employee Engagement

71 points

2018: 67 points

Order Book

£14.1bn

2018: £12.0bn

Reported Operating Profit

£102.5m

2018: £80.5m

Reported EPS, diluted

4.21p

2018: 5.99p

Free Cash Flow

£62.0m

2018: £16.3m

Major Incident Frequency

**0.39 per
1m hours**

2018: 0.50 per 1m hours

P.09-11

See KPIs on
pages 09-11
for definitions

At a Glance

What we do

Serco delivers services to governments and other institutions who serve the public or protect vital national interests.

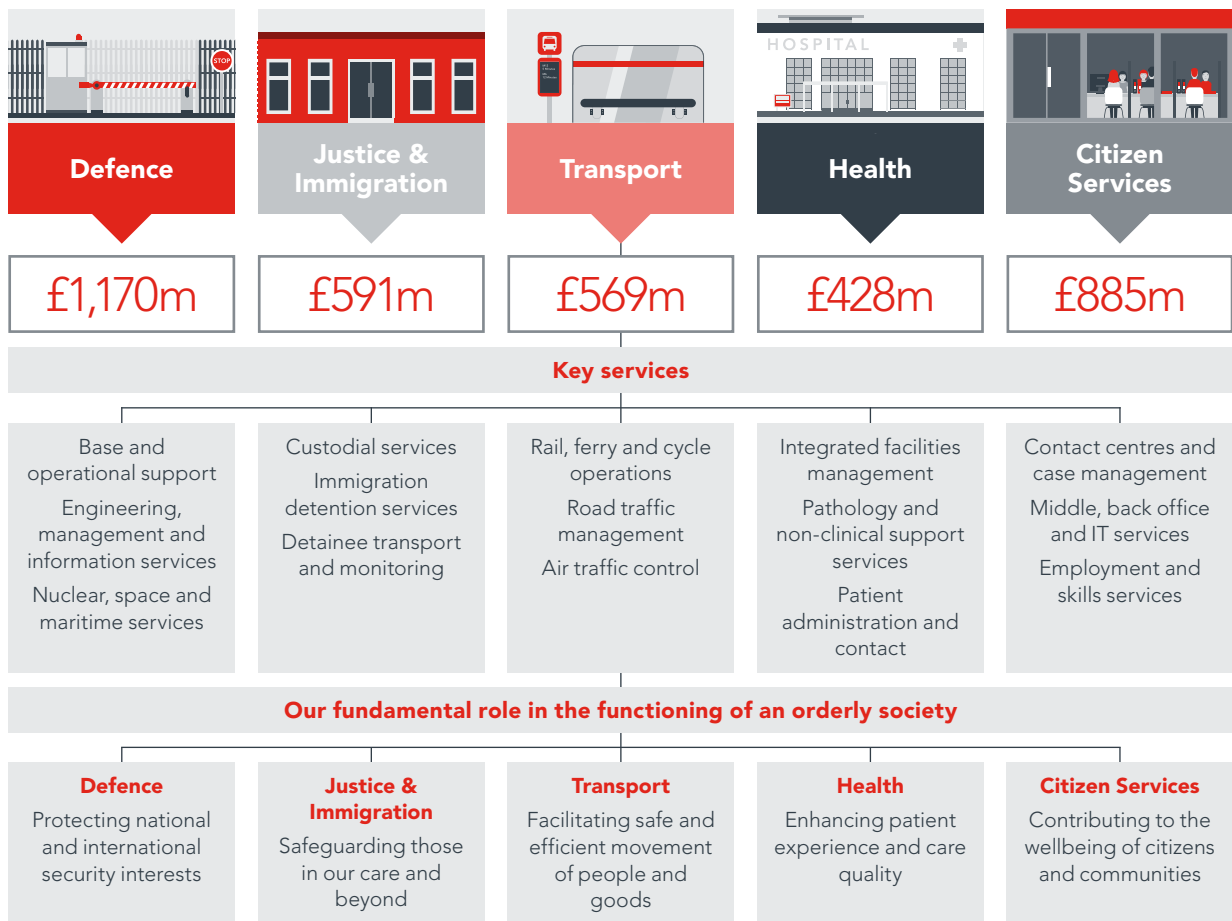
Serco's roots go back to 1929, and in 1988 the Group was listed on the London Stock Exchange. Now, Serco is a FTSE 250 company managing over 500 contracts worldwide and employing over 50,000 people across our operations.

We deliver services through people, supported by effective processes, technology and skilled management. Our customers define what outcomes or services they need to deliver, and we develop new and more effective ways to deliver them. We provide innovative solutions to some of the most complex challenges facing governments, bringing our

experience, capability and scale to deliver the service standards, cost efficiencies and policy outcomes governments want. In this way we make a positive difference to the lives of millions of people around the world, often looking after some of the most vulnerable and disadvantaged in society and helping to keep nations safe.

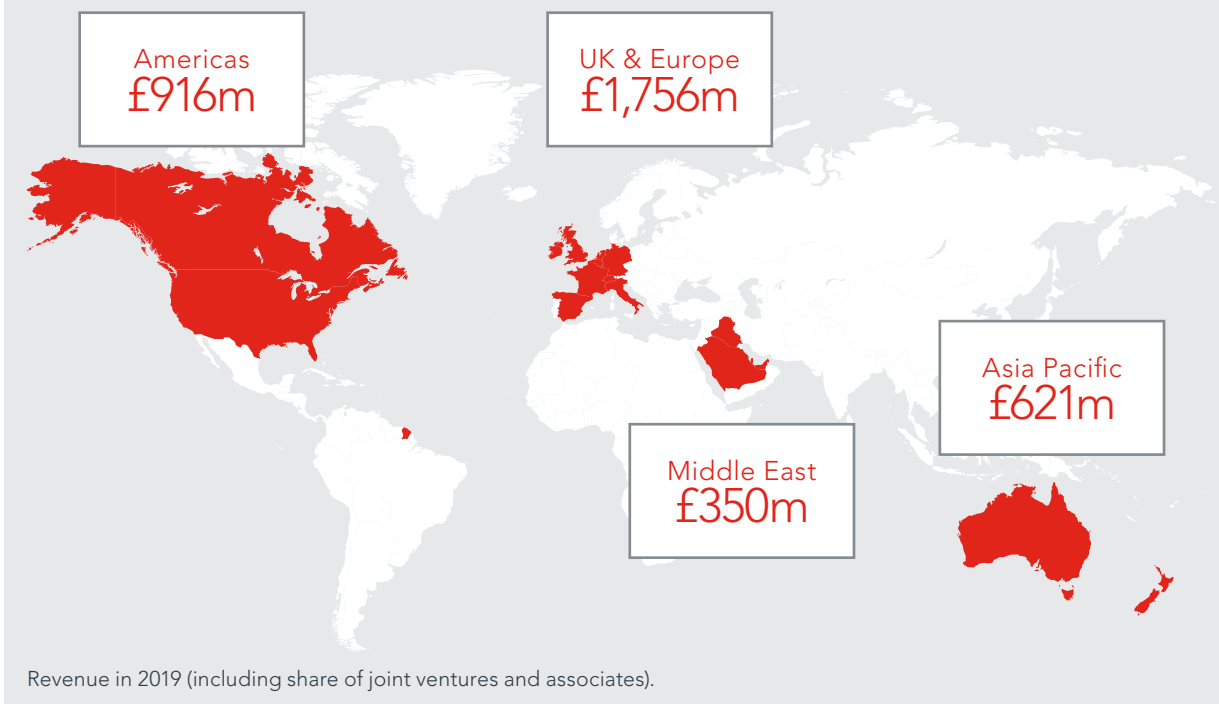
Our core sectors

Our business is focused across five core sectors, with revenue in 2019 of £3,248m or, including our share of joint ventures and associates to reflect our total scale in each sector, of £3,643m.



Where we operate

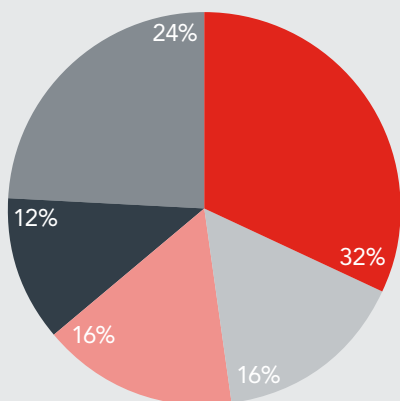
Serco's operations are across four geographic regions:



Our business mix

Serco's revenue by sector and geographic division:

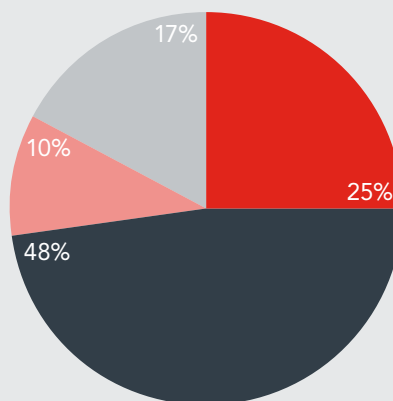
Revenue by Sector



Total revenue £3,643m

- Defence
- Justice & Immigration
- Transport
- Health
- Citizen Services

Revenue by Division



Total revenue £3,643m

- Americas
- UK & Europe
- Middle East
- Asia Pacific

P.16 See page 16 for more information on our business

Revenue in 2019 (including share of joint ventures and associates).

Chairman's Statement

Sir Roy Gardner
Chairman



2019 Highlights

- Underlying Trading Profit of £120m, an increase of 29%.
- Order intake of £5.4bn, a book-to-bill ratio of 170%.
- Acquisition of NSBU, adding materially to the scale and capability of Serco's defence business.
- Further development of risk management and governance effectiveness.
- Good engagement with customers and proposition development to continue succeeding in the market for complex public services.
- After a strong year of progress in 2019, positive outlook for 2020 and beyond.
- The recent performance, and the health of our balance sheet gives us the confidence to resume paying dividends to our shareholders for the first time in six years.

"I am pleased to report that 2019 has been a year of very strong progress, building on that achieved in 2018 which marked an inflection point for Serco and the shift from the 'Transform' stage of delivering our turnaround to the 'Grow' stage.

"Not only have we delivered financially and improved operationally in almost all of our key performance metrics in 2019, but we have also completed a substantial acquisition, achieved a record level of order intake, and continued to develop and strengthen across all areas of our corporate responsibilities. We have maintained our absolute focus on the importance of governance and transparency, and, as we hope is evident in this document, we are responding to the demand on companies for more extensive corporate reporting."

Delivering on our strategy implementation

In 2015, following an operating loss of £1.3bn in 2014 and major issues with our largest customer, new management set out a three-stage plan for Serco: Stabilise, Transform, Grow. Stabilisation was largely completed in 2015 following the recruitment of a new management team, recapitalisation of the business and delivery of a corporate renewal programme. Transformation then started in earnest, with this stage largely concluding in 2019 whilst also ensuring it is embedded in the Company as 'business as usual'. 2018 marked the start of delivering the third phase – Growth – with Underlying Trading Profit increasing for the first time in five years. 2019 has built upon this, with growth and improvements across virtually every metric.

In terms of financial performance, revenue growth of 15% (the first time revenue has grown in five years), combined with margin improvement from 3.3% to 3.7%, has led to Underlying Trading Profit increasing by 29% to £120m. After the Group's financing and tax costs, and taking into account the increased number of shares following the funding of the NSBU acquisition, Underlying Earnings Per Share increased by 18% to 6.16p. The strength of Serco's balance sheet also remains clear: Adjusted Net Debt of £215m results in leverage broadly unchanged from a year earlier and therefore remaining comfortably at the lower end of our normal target range of 1-2x; our pension schemes are in a strong funding position with balance sheet accounting surplus; and we pay our supply chain promptly and do not utilise working capital facilities to do so.

Operationally, the confidence that customers have in Serco to deliver critical, sensitive and complex public services is reflected in the record order intake of £5.4bn for the year, taking our order book to its highest ever level of £14.1bn. Over 40% of this order intake comprised new business, with the balance being order intake to secure existing work. Of particular note, the latter included the successful rebids of the UK asylum accommodation contracts and the prisoner escorting contracts, with these being previously loss-making operations which have been rebid to be appropriately profitable under the new contracting terms. I am also delighted that our employee engagement scores, which have risen steadily since 2013, climbed further year-on-year from 67 to 71 points in 2019. This measure is one of a number of non-financial KPIs which drive our performance, more of which can read about on pages 9 to 11.

In terms of our strategy, I would highlight two aspects. First, the advantage of Serco's broad international footprint has remained clear. Our North America and Asia Pacific regions demonstrated the strongest organic revenue performances, but we have also moved the UK back into organic growth for the first time since 2013 and, pleasingly, around 55% of our order intake came from the UK, with the balance from our international customers. Secondly, we have demonstrated the ability to successfully execute and integrate material acquisitions such as NSBU in the US. This leading provider of ship and submarine design and engineering services adds materially to the scale of our defence business and brings with it further opportunities to leverage capabilities across our international platform. We funded the acquisition in the most part through an Equity Placing which was very well supported by our institutional shareholders, which was gratifying to see. Having already made the two smaller acquisitions in 2018 which have gone on to perform well in their first full financial year as part of Serco, we continue to see acquisitions as a key part of sustainable value creation – in terms of better-service to customers, improving opportunities for our employees and business partners, and enhancing returns for our shareholders.

I would also draw your attention to our announcement in July 2019 that one of our subsidiaries, Serco Geografix Ltd, reached a Deferred Prosecution Agreement with the UK Serious Fraud Office, which concluded the SFO's investigation into Serco companies announced in November 2013. An exceptional charge has been taken in the 2019 financial results for the £19.2m fine together with £3.7m for the SFO's investigation costs. The fine reflected a discount of 50% as a result of Serco's self-reporting, as well as our significant and substantial cooperation with the investigation. The SFO also recognised the significant steps Serco has taken to reform itself, including the thorough implementation under independent supervision of a comprehensive Corporate Renewal Programme approved by the UK Government in 2014.

You can read more about all of these points in the Chief Executive's Review on pages 22 to 34.

Our Board, governance and evolving corporate responsibilities

Serco's Board has seen considerable change since I became Chairman in July 2015. In previous years we have brought in new Non-Executive Directors with a mix of backgrounds and experience to ensure a balanced, dynamic and effective Board. As previously reported, Eric Born joined the Board on 1 January 2019 and at the same time John Rishton assumed the role of Senior Independent Director. Whilst the Board has become more balanced over recent years, culminating in 33% gender diversity, we recognise we still have much more to do, not least with regard to other areas of diversity at Board level. Whilst good progress is being made across the Group on all aspects of diversity and inclusion, sustainable change requires a long-term perspective and this remains a key focus for the Company. There were changes to the membership of most of the Board's Committees, and 2019 has been a year of continued developments to drive effectiveness and support our clear belief that strong governance is a vital component in the long-term success of the Company.

In our Corporate Governance Report on pages 101 to 154, you will read that we have fully complied with the provisions of the UK Corporate Governance Code during 2019, and I would draw your attention to the s172 statement we make on pages 96 to 100 as this is the first time we have put this in our Annual Report and it shows how the Board has engaged with our stakeholders and approached the decisions we have made during the year. We have thoroughly reviewed and revised the Terms of Reference of each of the Board's Committees, ensuring the consideration of all relevant matters and the appropriateness of all lines of communication, and these are also described in each individual Committee Report. As part of this process, I would also draw your attention to our commitments to diversity, to shareholder engagement and to your Board's active involvement in evaluating bids and contracts, meeting regularly with senior management responsible for operational delivery and business development, as well as visiting contracts and engaging with the wider management team, including participation in Serco's Management training courses.

The Corporate Responsibility Committee has seen its remit evolve significantly during 2019, and you can read more on this on pages 120 to 121 and the summary Corporate Responsibility Report on pages 76 to 95. This includes details of our chosen approach to Employee Voice, the 'Colleague ConneXions' programme, led by our designated Non-Executive Director Kirsty Bashforth, through which we will ensure employee views and interests are factored into our decision-making. The programme – shaped and led by our frontline colleagues in close collaboration with the Board – has been warmly welcomed to help us amplify employee voice and strengthen dialogue between the Board and all employees. Further details are available on page 81. In 2020, as part of our focus on ESG matters, we will be increasing our approach to environmental issues as we appreciate there is more that we can do in that area as you will see from the Committee's report.

Chairman's Statement continued

I would also like to draw your attention to our Corporate Responsibility framework on pages 77 to 92, which we created a few years ago to make the principles of our approach to Corporate Responsibility more actionable and meaningful. This framework is structured around our four core stakeholders – owners, customers, employees and the wider world – and this year we have aligned it with areas of responsibility in terms of Environmental, Social and Governance (ESG) factors, and have also recognised the alignment with each of the relevant UN Sustainable Development Goals (SDGs). Our summary Corporate Responsibility Report contained within this Annual Report and Accounts, and our full Corporate Responsibility Report which can be accessed on www.serco.com, sets out in detail Serco's aims and actions to be a sustainable business that makes a positive difference to society.

Looking ahead

This time last year, we set out in considerable detail our views on our markets, including refreshing our strategic review, our evaluations of the potential impacts of Brexit, and the developments following a period of notable further distress to the UK Government's supply chain given the fates of Carillion and Interserve. Most of these views have not subsequently changed to any great extent, other than to note that the final resolution of the Brexit decision brings helpful clarity around which we can plan. We still see attractive, long-term structural drivers – what we term the 'Four Forces' – which should lead to governments demanding additional support in the delivery of public services. We have also welcomed the progress made by the UK Government to recognise that it needs a healthy relationship with its supply chain for effective and efficient public service delivery. It is worth noting of course, that Serco's particular areas of service delivery, being more non-discretionary and critical in nature, can offer us stability in uncertain political times as well as the potential for attractive long-term growth. We have seen the benefit even more so from Serco's portfolio of sectors and particularly across geographies that have afforded us protection against the vagaries in any single market.

Looking specifically at 2020, we expect revenue to grow by 6-8% to £3.4-3.5bn, and, with further progress on increasing our profit margin, Underlying Trading Profit to grow by about 20% to around £145m. We also anticipate Adjusted Net Debt to reduce even while taking into account a resumption of dividend payments to our shareholders.

Resumption of dividend

When dividend payments were suspended in 2014, the Board committed to resuming dividend payments to Serco's shareholders as soon as it judged it prudent to do so. 2019 has been a year of very strong performance. It is also the last year of significant outflows of cash related to loss-making contracts and restructuring costs. Our expectations for 2020 are for further good progress in increasing underlying earnings and reducing financial leverage.

The Board is therefore recommending the payment of a final dividend in respect of the 2019 financial year. Our intention going forward is to weight dividend payments roughly one-third: two-thirds between interim and final payments. The Board considers it appropriate to reintroduce the dividend payments at a level of underlying EPS cover initially of around four times, equivalent to a payout ratio of approximately 25%.

Taking this into account, the Board is therefore recommending the payment of a final dividend in respect of the 2019 financial year of 1.0p. The dividend, subject to shareholder approval at the Annual General Meeting on 14 May 2020, would be paid on 5 June 2020.

The Board will keep the dividend under regular consideration as we continue to drive forward with the growth stage of our strategy. This will consider views of the Group's underlying earnings, cash flows and financial leverage, together with the prevailing market outlook. The Board is mindful of the requirement to maintain an appropriate level of dividend cover, the potential alternative uses of capital to generate incremental value for shareholders, and the desire to maintain financial flexibility and a strong balance sheet that is considered appropriate for Serco's ability to deliver sustainable value for all of the Group's stakeholders.

Securing our future success

Serco's purpose is to be a trusted partner of governments, providing superb public services that transform outcomes and make a positive difference for our fellow citizens, whilst delivering attractive returns to our shareholders and rewarding careers to our employees. Our approach to achieving this is through aspiring to be the best-managed company in our sector, and concentrating on doing four things really well: winning good business; executing brilliantly; being a place people are proud to work; and being profitable and sustainable.

Your Board is absolutely focused on long-term, sustainable shareholder value creation, and doing so by promoting the best interests of shareholders alongside those of our employees, customers, and the societies and communities in which we work. Serco has a clear strategy to complete and embed the transformation of the business and position it for long-term success in its markets, and is on track to achieve this through a highly effective executive management team and a committed workforce that cares passionately about public service delivery.

We have made great progress in recent years turning the business around and I am delighted to report that 2019 has seen excellent growth in revenues and profits, a record order intake and order book, a strong balance sheet maintained, a strategically important acquisition completed, the confidence to recommend a resumption of dividends to shareholders and a continued focus to positively shape the business and its market positioning for the benefit all our stakeholders. Furthermore, we expect to build on this in 2020, as outlined with our guidance for further growth in our revenues and Underlying Trading Profit.

I would like to thank all colleagues in the business for their efforts in achieving a very successful 2019, and for their continued support in helping Serco to be a superb provider of public services that we can all be proud of.



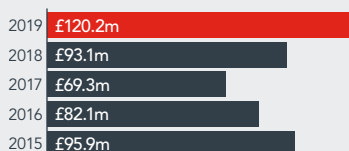
Sir Roy Gardner
Chairman
25 February 2020

Key Performance Indicators

We use Key Performance Indicators (KPIs) to monitor our performance, ensuring we have a balance and an appropriate emphasis to both financial and non-financial aspects. In recent years, we have also evolved and improved our Management Information, including the contract performance monitoring process which tracks KPIs specific to each customer operation, our monthly management accounts and our Divisional Performance Review (DPR) processes.

For each KPI we explain the definition, relevance to our strategy and the performance in 2019. We have made no changes in 2019 to the KPIs presented and therefore there is comparability and consistency with our focus in the business and the guidance that we issue. The Finance Review provides further detailed definitions and reconciliations of our use of Alternative Performance Measures (APMs). Information on our carbon emissions and a large number of other corporate responsibility Key Performance Indicators can be found within our Corporate Responsibility Report on pages 93 to 95, as well as in our more detailed corporate responsibility report for the year which is available on our website www.serco.com.

1. Underlying Trading Profit (UTP)



Definition

Trading Profit is defined as IFRS Operating Profit excluding amortisation of intangibles arising on acquisition as well as exceptional items. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates. Underlying Trading Profit additionally excludes Contract & Balance Sheet Review adjustments (principally Onerous Contract Provision (OCP) releases or charges), and other material one-time items as set out in the Finance Review on pages 42 to 59.

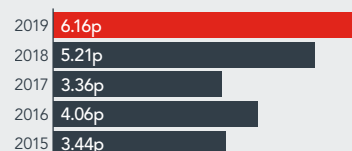
Relevance to strategy

The level of absolute UTP and the relationship of UTP with revenue – ie the margin we earn on what our customers pay us – is at the heart of our 'profitable and sustainable' business objective, as well as being an output of 'winning good business' and 'executing brilliantly'. We describe on page 17 that the delivery of strategic success, after the completion of further transformation, has potential in the longer term to deliver revenue growth of 5%+ and trading margins of 5%+.

Performance

The outcome was a significant improvement over the £105m we expected at the start of the year. The 29% increase on 2018 was driven by new contract awards and growth in volume-related work which drove particularly strong organic revenue growth in the Americas and AsPac Divisions, the contributions from acquisitions, the new contract structure and workload on the CMS contract, and a generally strong operating performance across the Group. The underlying margin rose from 3.3% to 3.7%.

2. Underlying Earnings Per Share (EPS), diluted



Definition

Underlying EPS reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs and related tax effects. It takes into account any non-controlling interests share of the result for the period, and divides the remaining result that is attributable to the equity owners of the Company by the weighted average number of ordinary shares outstanding, including the potential dilutive effect of share options, in accordance with IFRS.

Relevance to strategy

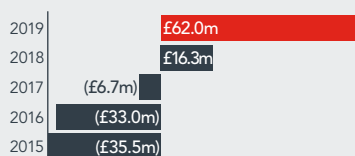
EPS builds on the relevance of UTP, and further reflects the achievement of being 'profitable and sustainable' by taking into account not just our ability to grow revenue and margin but also the strength and costs of our financial funding and tax arrangements. EPS is therefore a measure of financial return for our shareholders.

Performance

The 18% increase on 2018 reflects the strong 29% UTP growth as described, the increase in net finance costs and lower underlying effective tax rate which broadly offset each other, and the increase in number of shares in issue resulting from the Placing in May 2019 of additional shares to fund the NSBU acquisition.

Key Performance Indicators continued

3. Free Cash Flow (FCF)



Definition

Free Cash Flow is the net cash flow from operating activities before exceptional items as shown on the face of the Group's Consolidated Cash Flow Statement, adding dividends we receive from joint ventures and associates, and deducting net interest paid and net capital expenditure on tangible and intangible asset purchases. FCF for 2018 has been restated for a change to accounting for leases, as described on page 47.

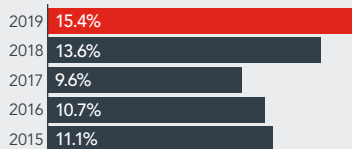
Relevance to strategy

FCF is a further reflection on how 'sustainable' our profits are, as well as the sustainability of the overall business, by showing a measure of how much of our effort turns into cash to reinvest back into the business or to deploy in other ways. Furthermore, 'winning good business' should reflect that which generates appropriate cash returns, and 'executing brilliantly' should include appropriate management of our working capital cash flow cycles.

Performance

The improvement includes that from increased UTP together with reduced outflows related to loss-making contracts subject to OCPs as reflected in the lower rate of provision utilisation. The working capital movement was broadly neutral compared to an outflow of £22m the prior year, and the Group has continued to not utilise any factoring or other working capital facilities during 2019.

4. Underlying Return on Invested Capital (ROIC)



Definition

ROIC is calculated as UTP for the period divided by the invested capital balance. Invested capital represents the assets and liabilities considered to be deployed in delivering the trading performance of the business. Invested capital assets are: goodwill and other intangible assets; property, plant and equipment; interests in joint ventures and associates; contract assets, trade and other receivables; and inventories. Invested capital liabilities are contract liabilities, trade and other payables. Invested capital is calculated as a two-point average of the opening and closing balance sheet positions. Invested Capital and Underlying ROIC for 2018 has been restated for a change to accounting for leases, as described on page 48.

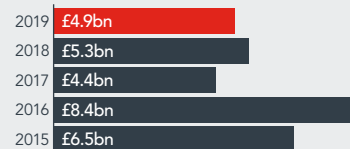
Relevance to strategy

ROIC measures how efficiently the Group uses its capital to generate returns from its assets. To be a sufficiently 'profitable and sustainable' business, a return must be achieved that is appropriately above a cost of capital hurdle reflective of the typical returns required by our weighting of the use of equity and debt capital.

Performance

The improvement in ROIC reflects both the increase in UTP as described, together with a slightly lower invested capital base excluding the impact of acquisitions; the effect of consolidating five months of contribution from the NSBU acquisition and its increase in the closing balance of Invested Capital had a downward impact on ROIC. We expect further growth in ROIC to be driven by additional improvement in profit margin from making continued progress with the 'Grow' phase of our strategy.

5. Pipeline of larger new bid opportunities



Definition

The estimated aggregate value at the end of the reporting period of new bid opportunities with Annual Contract Value (ACV) greater than £10m and which we expect to bid and be awarded within a rolling 24-month timeframe. It does not include rebids or extensions of existing business, and the Total Contract Value (TCV) of individual opportunities is capped at £1bn; also excluded is the potential value of framework agreements, prevalent in the US in particular where there are numerous arrangements classed as 'ID/IQ' – Indefinite Delivery / Indefinite Quantity.

Relevance to strategy

The pipeline provides a key area of potential for 'winning good business' and therefore is a major input to being 'profitable and sustainable'. The size of the pipeline and our win-rate conversion of the bids within it will also ultimately be at the heart of successfully achieving ongoing progress in the third and final stage of our strategy implementation – the 'Grow' stage.

Performance

The pipeline at 31 December 2019 had decreased by a net £0.4bn on the position a year earlier, reflecting a greater value of opportunities exiting the pipeline versus those coming in. In January and February 2019, Serco had already won the two largest opportunities that were in the pipeline – AASC in the UK and NGHS in Australia. Removing these opportunities from the £5.3bn opening pipeline as at 31 December 2018 would have reduced it down to around £3.6bn. The pipeline increased in the second half of the year. As we have previously stated, a lower pipeline is not a matter of undue concern, particularly when this is driven by a strong order intake, together with the ability for us to also improve profitability through rebid opportunities or where we can add to our order book through acquisitions as evidenced with the Carillion health facilities management contracts and the NSBU acquisition.

Going forward, Serco will change its pipeline definition to no longer exclude opportunities for new business that have an estimated ACV smaller than £10m. At around £1.6bn, smaller opportunities in aggregate are a significant component of the pipeline and potential growth, and likely to be increasingly so given the use of task orders under framework contracts; the pipeline on this basis therefore increases from £4.9bn to approximately £6.5bn.

6. Order book

2019	£14.1bn
2018	£12.0bn
2017	£10.7bn
2016	£9.9bn
2015	£10.0bn

Definition

The order book reflects the estimated value of future revenue based on all existing signed contracts, excluding Serco's share of joint ventures and associates. It excludes contracts at the preferred bidder stage and excludes the award of new Multiple Award Contracts (MACs) or IDIQ contract or framework vehicles, where Serco cannot estimate with sufficient certainty its expected future value of specific task orders that may be issued under the IDIQ or MAC; in these situations the value of any task order is recognised within the order book when subsequently won. In 2018, the definition was aligned with IFRS15 disclosures of the future revenue expected to be recognised from the remaining performance obligations on existing contractual arrangements. This excludes unsigned extension periods, but the £14.1bn would be £15.3bn if option periods in our US business were included.

Relevance to strategy

The order book reflects progress with 'winning good business' including retaining existing work through extensions or rebids, and as a store of future value it is a key measure to ensure the Group is 'profitable and sustainable'. The value of how much is added to the order book compared to how much revenue we are billing our customers – the book-to-bill ratio – is key to achieving long-term growth.

Performance

With very strong order intake of £5.4bn there has been growth in the order book through a book-to-bill ratio of around 170%, the third year in a row in which order intake has exceeded revenues. This was further enhanced by adding to the order book through the acquisition of NSBU.

7. Major incident frequency rate, per 1 million hours worked

2019	0.39
2018	0.50
2017	0.45
2016	0.40
2015	0.43

Definition

Major incidents are classed as fatalities, fractures, amputations, dislocations, loss of sight, chemical and hot metal burns, electrical burns, unconsciousness caused by asphyxia or exposure to a harmful substance, and acute illness resulting from substance inhalation or ingestion. During 2019 we reviewed the classification of incidents reported through workers' compensation insurance in the AsPac and Americas Divisions. Several incidents were identified in claims where the severity of injuries met the criteria for what Serco defines as a 'Major Injury' but the incidents had not been recorded as such. This resulted in an increase in incidents classified as major. To ensure completeness, a review of all incidents from 2015 to date was undertaken. This is reflected in restating the historical frequency rates.

Relevance to strategy

Delivering excellent service to our customers, and therefore 'executing brilliantly', requires us to operate in the safest way possible. Safety also has a direct bearing on the commitment and engagement of our people, which is central to achieving 'a place people are proud to work'.

Performance

Across some 93 million hours worked in 2019 there were 36 major incidents reported. This resulted in a frequency rate of 0.39 per 1 million hours worked. This exceeded our target of 0.34, however, pleasingly, it is well below the 2018 performance of 0.50. The improvements primarily result from our continued focus on reducing violence and aggression within the UK custodial environment and reductions in associated serious physical assaults.

Further performance data and details of initiatives implemented to improve performance are covered in the Corporate Responsibility Report.

8. Employee engagement

2019	71 points
2018	67 points
2017	56%
2016	54%
2015	53%

Definition

We use a specialist third party provider to run Viewpoint, our global employee engagement survey. The survey covers all employees, excluding our joint ventures, and measures engagement in two key areas: how happy employees are working at Serco, and their intention to recommend Serco to others. Our engagement score incorporates all employees' perceptions and shows the overall average view of these two areas when we survey. In 2018, our methodology for calculating employee engagement changed, aligned to our new provider. Pre-2018, engagement results represent the proportion of engaged employees expressed as a percentage. Post-2018, engagement scores represent the average response, with a maximum potential score of 100. It is not possible to adjust all our historic data to restate to the new methodology, although analysis performed by the new provider in 2018 indicated that the engagement level for that year was broadly stable on the previous year's score which was already the highest since we started measuring engagement in 2011.

Relevance to strategy

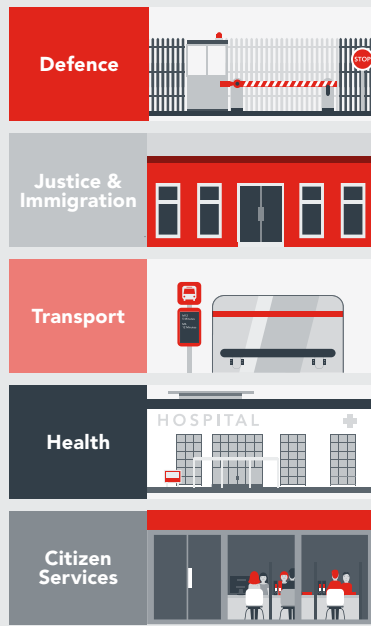
Employee engagement reflects 'a place people are proud to work', which is crucial to delivering outstanding customer service and achieving our strategic aims. Under the new scoring methodology, a score of 70 points or above was our target for 2020, which aligns with the global cross-sector benchmark provided by the specialist third party provider of our survey.

Performance

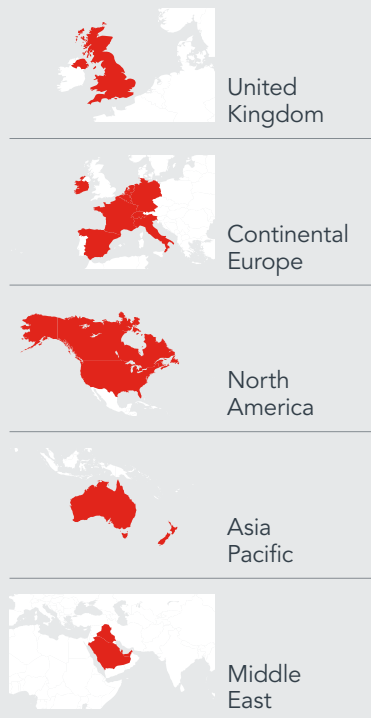
The 2019 Viewpoint survey was based on some 27,000 employees responding, representing a response rate once again of over 70% which is considered very strong versus the benchmark from the specialist third party provider of the survey. The result for 2019 has achieved the targeted improvement in overall employee engagement a year earlier than aimed for. The Viewpoint results are cascaded throughout the organisation and detailed plans of activity put in place to focus on areas highlighted by the detailed scoring analysis and the comments raised. In addition to completing the survey questions, some 50,000 individual comments were submitted, with 56% of respondents choosing to do so, which is considered to be a very positive reflection of the culture of openness and care of our employees.

Our Market

Our core sectors



Our markets



We believe that fundamental drivers will continue to increase demand for our services.

Serco delivers services to governments and other institutions who serve the public or protect vital national interests. We focus on five sectors: Defence, Justice & Immigration, Transport, Health and Citizen Services, and deliver them in the UK, Continental Europe, North America, Asia Pacific and the Middle East.

Government as a purchaser of public services

Governments have two basic responsibilities: to develop policies, and to ensure that those policies are delivered. Some policies can be delivered simply by enacting legislation, relying on individuals and corporations to deliver the policy themselves by acting in accordance with the law, with the police and judiciary acting as enforcers of behaviour. An example of this would be a policy that required a speed limit of 20 mph near schools, which can be enforced by the police in the normal course of law enforcement. Other policies require substantial specialist workforces to be employed to deliver them. One example would be a policy that pending the adjudication of their applications, asylum seekers should be housed in the community, rather than in detention: such a policy requires the government to employ – directly or indirectly – the people required to manage housing and welfare services. Another example of a policy that requires a dedicated workforce to deliver it would be air traffic control, which requires highly qualified staff to be deployed, often to remote locations.

Public services require people

The delivery of many areas of government policy is labour-intensive, and the number of people involved in the delivery of government services vastly outnumbers those involved in developing policy; in some countries, government is the largest employer – employing more people than any other sector or organisation. For example, according to the United States Bureau of Labor Statistics, nearly twice as many people (22.7 million as at January 2020) are employed by government bodies as are in manufacturing (~12.9 million as at January 2020) across the US.

The labour-intensive nature of government service delivery demands strong management of the processes to recruit, organise and oversee the hundreds or even thousands of people required to deliver a public service. Many public servants are talented managers, but all governments find it hard to attract and retain managers in the numbers required to deliver services in the face of private sector competition for these skills. Serco helps governments by being a bridge between the drive, energy and innovation of the private sector, and the very specific requirements of public services.

The private sector as a supplier of public services

Governments have used private contractors to deliver public policy, often in very sensitive areas, for centuries. In medieval times, fighting wars and tax collection were often outsourced, in whole or part, to private enterprise. The transportation of prisoners from the UK to Australia, which started in 1788 and continued until 1868, was carried out entirely by private contractors. Today, in the UK, frontline medical services by the National Health Service, which is widely perceived as a nationalised service, is largely provided by privately-owned businesses called General Practitioner Practices, the vast majority of whom are employed by private partnerships and companies rather than by the state. Some of the most sensitive and secret defence work, such as developing and supporting strategic nuclear weapons, is carried out by private companies.

“The challenge facing governments worldwide can, like our strategy, be simply expressed: to deliver more, and better, for less.”

Some services which governments need in order to deliver public policy are similar or identical to those required in the private sector, and suppliers can happily operate in both markets. Running payroll, providing telecoms networks and IT centres is not vastly different in the public and private sectors. But some government services – such as running prisons or providing air traffic control – are unique to government and have no private sector equivalent. Many government services are bought only by government, and providing them is a specialist business, quite different from anything found in the private sector. However, many of them can be run efficiently on behalf of government by private companies using techniques, management, technology and processes developed in the private sector.

Unique demands of public service delivery, and some history

Providing government services to citizens, funded by taxpayers, is different, and in many ways more demanding, than providing services to the private sector or consumers. Politics, transparency and accountability to multiple stakeholders are sometimes seen only dimly in the private sector, but are writ large in the public sector, and need careful management. Serco has deep expertise in providing this bridge: overlaid on our private sector techniques, drive and energy is a public service ethos that means that we can help deliver government services efficiently, but in a way that recognises the need for public accountability and trust, and the fact that we are often looking after some of the most vulnerable and disadvantaged in society.

Having government as your customer also means that you are exposed to the ever-changing political weather. In essence, this is no different from any other market where fashion, technology and economic conditions impact demand, but governments can change their policies and priorities with lightning speed. For nearly thirty years between 1980 and 2010, Serco grew rapidly as the market for outsourcing public services developed around the world. Inspired by Thatcherism and the policies of President Reagan, privatisation and outsourcing became popular in many countries and drove rapid growth of an industry that had barely existed before. Suppliers became highly profitable and skilled at extracting value from government contacts.

As the global financial crisis of 2008 took hold, governments began to urgently seek ways of reducing costs, and the private sector, now representing a significant proportion of government expenditure, became the object of close government attention. Following the ending of the war in Afghanistan, military expenditure was sharply reduced, particularly in the US. 2010 saw in the UK the election of the Conservative-Liberal Democrat Coalition, with an avowed intent of reducing the deficit, and as a statement of intent demanded rebates of hundreds of millions of pounds from contractors; more importantly, the UK Government strengthened its commercial teams and procurement practices and set about transferring as much risk as it could to the private sector. It appeared to be a conclusion of UK Government that if risk transfer was a benefit to them of outsourcing, surely the more risk you could force suppliers to take, the better. In the US, ‘Lowest Price, Technically Acceptable’ was increasingly used instead of an approach of overall ‘Best Value’ as a tender evaluation methodology.

Whilst these sorts of shifts in demand and in the relative power of customers and suppliers are common to all markets, the difference in dealing with government is the fact that government is often a monopoly purchaser; only governments buy prisons, or weaponry, or care of asylum seekers, so when they change their direction it can have very profound impacts on their supply chain.

The story of the UK government services outsourcing industry has been one of acute difficulty for much of the period since 2010. Over-supply, aggressive behaviour by both government and suppliers, and the ill-advised transfer of risks that often private companies had no way to mitigate or manage has led to the near-destruction of a once thriving industry, as multiple companies have suffered huge losses on government contracts. As a consequence, the UK Government is now faced by a much more wary, and less vibrant, supply chain. Having discovered that it could attract new international competition into the market because barriers to entry seemed low, it has subsequently discovered that the barriers to exit from the market were low as well.

Having swung too far in favour of contractors, the balance of power in the public services market in the UK swung too far back to government after 2010; it is, we believe, beginning to work its way back towards a more balanced and sustainable position. Such is the way of all markets as they mature, and we believe that if governments and their suppliers recognise the consequences of their past excesses and work co-operatively it should become possible to anchor the balance of power between customer and supplier in a place which delivers value for money for taxpayers, high quality and reliable services to users, innovation and improving efficiency, as well as fair returns to suppliers which will in turn ensure that government has choice from a vibrant supply chain containing companies both large and small.

Drivers of demand

Notwithstanding some unique difficulties in the UK market in recent years, the business of providing services to government remains attractive in the long term for a number of reasons. First, in many areas of public service provision, private companies, properly managed, can deliver services of higher quality and lower cost than governments can themselves. Secondly, governments will continue to face relentless pressure to deliver more and better public services, at lower cost, and that this will lead them to focus relentlessly on value for money and the quality of service provision. This pressure comes from what we call the ‘Four Forces’ comprising:

- the unavoidable increase, at rates above GDP growth, of demand for public services across important areas of government. Examples are the pressures on health and social care driven by ageing populations, and growing prison populations;
- the need to reduce public debt and expenditure deficits;
- rising expectations of service quality amongst public service users; and
- the unwillingness of voters and corporate taxpayers to countenance tax increases.

Our Market continued

The third reason why the market for government services is attractive is because of its enduring nature compared to other markets. All around us, we see markets being disrupted and long-established business models being obliterated. Publishing, transport, retailing, energy, entertainment, IT, agriculture – it is hard to find industries which are not being fundamentally challenged by technology. We live in a world where it has become possible for the largest retailer to own no shops, the fastest-growing taxi service to own no vehicles, the largest social network to own no content, and the largest provider of overnight accommodation to own no property.

Whilst some areas of government will benefit from the ability to manage massive data and will find new ways to interact with citizens, we believe that there will be a continuing and enduring need for the kind of frontline services Serco provide. We are confident that in thirty years' time, sick people will still go to hospitals, and when there they will have their rooms cleaned and food served predominantly by humans. That when people break the law they will be sent to prison where custody officers will look after them; and that complex defence infrastructure such as near-space radar will still be maintained predominantly by human beings, who will need to be security cleared, again by other human beings. The bank teller or lorry driver or shop assistant may be rightly fearful that technology will disintermediate their role, but a prison custody officer or hospital porter can sleep soundly in the knowledge that his or her skills will be required for years to come.

Finally, although in their own country a government can wield the power of a monopoly purchaser, every country has a government, and with an international footprint together with a range of service offerings, agile suppliers can move to where the demand is and where they can get a fair return for the risk they take on. In a market with low barriers to both entry and exit, suppliers can move, but governments cannot.

We believe that the long-term pressures to deliver value-for-money, increasing demand for public services, and the need to improve service delivery will ensure that the role of the private sector in the delivery of public services will remain robust. The challenge facing governments worldwide can, like our strategy, be simply expressed: to deliver more, and better, for less, and they cannot do this without the support of the private sector. Technology will have a profound impact on the delivery of government services, but many frontline services will still need the social and emotional skills that only humans provide, and we believe the principal method of delivery of many government services will remain people for years to come. And the employment of people in the reliable delivery of public services is what we do, and we do it very well.

Research on UK outsourced services, commissioned by the Serco Institute, and carried out by Capital Economics, the independent economic research consultancy, has found that:

- "The evidence from areas that have been subject to competition suggests that it is possible to deliver services more cost efficiently without damaging service quality..."
- "Our analysis on prison management, soft facilities management in healthcare and air traffic control suggests that potential average savings to the government of between five and fifteen per cent from introducing competitive markets is a relatively conservative estimate..."
- and perhaps most importantly, that: "...the private sector typically delivers services to the same standard or better than the public sector."

Benefits of sector breadth and geographic reach

We focus our activities in five areas of government service: Defence, Justice & Immigration, Transport, Health and Citizen Services. Between them, these sectors account for a very large proportion of government expenditure and employ significant numbers of people in service delivery.

As well as providing a bridge between the private and public sector, Serco also provides the international and inter-departmental sharing of ideas and best practice which governments often find hard to achieve. New approaches for running prisons and reducing youth re-offending in the UK come from Australia; hospitals we manage in the Middle East use processes developed in the UK; likewise, our Defence business in the Middle East serves Australian armed forces. We transfer our insights, skills and processes from one sector or region to another, so we can anticipate and meet new challenges for customers. We know of no other company in our market which offers services covering front, middle, and back office requirements across our multiple areas of government policy delivery, internationally.

Risk management is central to our thinking at both a strategic and an operational level. In terms of strategy, although being a focused and specialist B2G business, we think it beneficial, and a competitive advantage, to diversify our exposure to individual governments and sectors. Governments can be capricious; decision-making processes regularly come to a halt around elections; the attitude to using private companies can be volatile; political priorities can change in the blink of an eye, switching discretionary resources from defence to immigration to healthcare and back again. In this environment, being diversified both by sector and geography reduces risk and volatility. Most companies operating in our market are heavily focused in either a particular sector, or within a geography; in our market, Serco is a rare beast, operating amongst five sectors and four regions.

But management of risk is only one reason we favour a strategy of operating across a number of jurisdictions and sectors. Governments across the world face similar challenges, and we believe that we can gain competitive advantage and deliver value to customers by operating internationally. At a detailed operational level, providing cleaning and catering services in a hospital is very similar in Western Australia and in the Middle East or indeed, the UK. In terms of capability, many of our contracts employ hundreds, and some, thousands, of people; so recruitment, training, staff rostering and time management are key capabilities applicable across all our sectors and geographies. The same is true of project and case management; we are also able to adopt consistent approaches to key operational tools such as Continuous Improvement.

A large and growing market

People ask: how large is the market for the private sector provision of public services? This is hard to determine with precision, as the boundaries of the market are fiendishly hard to define. Does the maintenance contract for a mainframe computer operated by the government fall within the definition of the market? How should we treat services provided by government-owned agencies operating on an arm's-length basis? Within Defence, do we count supply and support of, say, missile systems, or just the types of services we currently (as opposed to could) supply? And how do we disentangle the very different definitions of, and accounting for, expenditure used by the various governments with whom we deal?

In 2014, and again in 2016 and 2018, we did a lot of work to try and size the market in the sectors and geographies we currently operate in, which are clearly a subset of the global market. Our best guess is that the total annual value of government services in our target segments and geographies which could be provided by the private sector is around £300bn, of which around £100bn is delivered by private companies. Rather than concentrate on the absolute number, some key conclusions from our work are:

- the market for private sector delivery of government services is very large;
- the supply-side is fragmented; as a leading international supplier, our market share within our existing footprint, at around 3%, is small, although it is larger in some specific segments within certain sectors; and
- there is significant opportunity for growth, given that around two-thirds of the services that could be provided by the private sector are currently self-delivered by government.

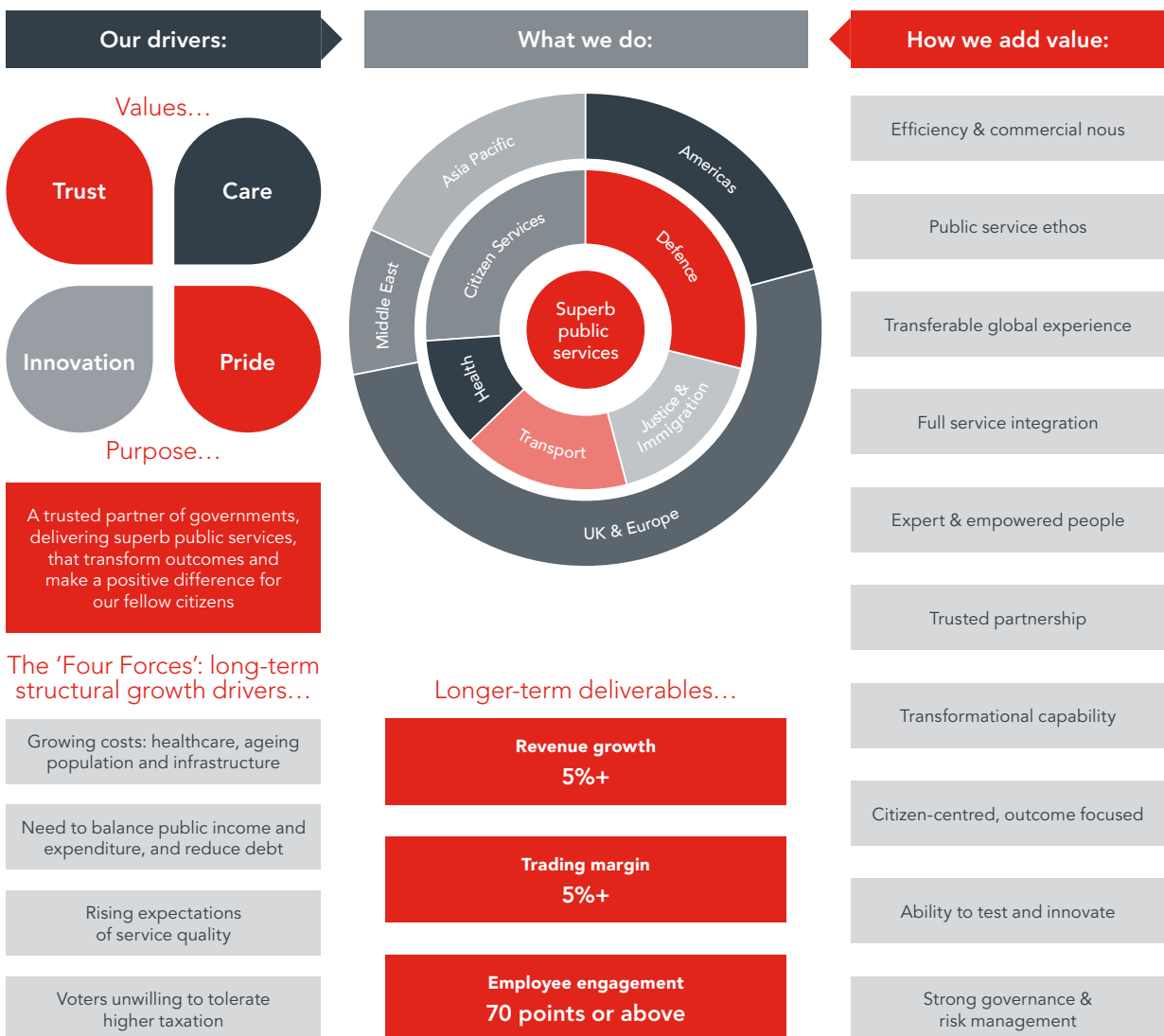
In terms of market growth, in 2018 we carried out further work to assess the rate of growth in our specific sectors and geographies. When we previously did this, in 2014, we concluded that the blended rate of growth of our mix of businesses had been running at 5-7%. Largely as a function of the weighting of our revenues to the UK – around 40% of the total Group – and the well-publicised travails of our home market, caused both by Brexit and the issues in government supplier relations described above, we revised our view to be that market growth was likely to be running at around 2-3% as a weighted average across our markets. We saw little likelihood that blended rates of growth across our markets would increase much beyond this in the immediate future, with much dependent on the nature of the UK Government post-Brexit, though Brexit itself may stimulate additional demand. Indeed, despite an outlook of increased political stability following the General Election in December, overall 2019 brought no discernible improvement in market conditions in the UK, although Serco itself achieved strong order intake and a return to organic growth for the first time in over five years. We were also able to deliver very strong organic growth in Australia, well ahead of market growth, and also very strong growth in North America where we capitalised on the uptick in US defence spending.

Whilst clearly experiencing some differing cycles in terms of Serco's own particular geographies and sectors, we see no reason to believe that, in the longer term, the rate of market growth might not revert to the previous levels of 5%+.

Our Business Model

We combine people, processes and technology in order to achieve our purpose of delivering superb public services.

Serco is not a consultancy or a technology business; we use process and technology as enabling tools, not as products to sell. Furthermore, since processes and technology depend on people, it can be simply said that the success of our strategy will depend upon how well we manage, organise, motivate, develop and select people, and the criticality of their behaviour. So the answer to 'how?' is: 'by being the best-managed business in our sector'.



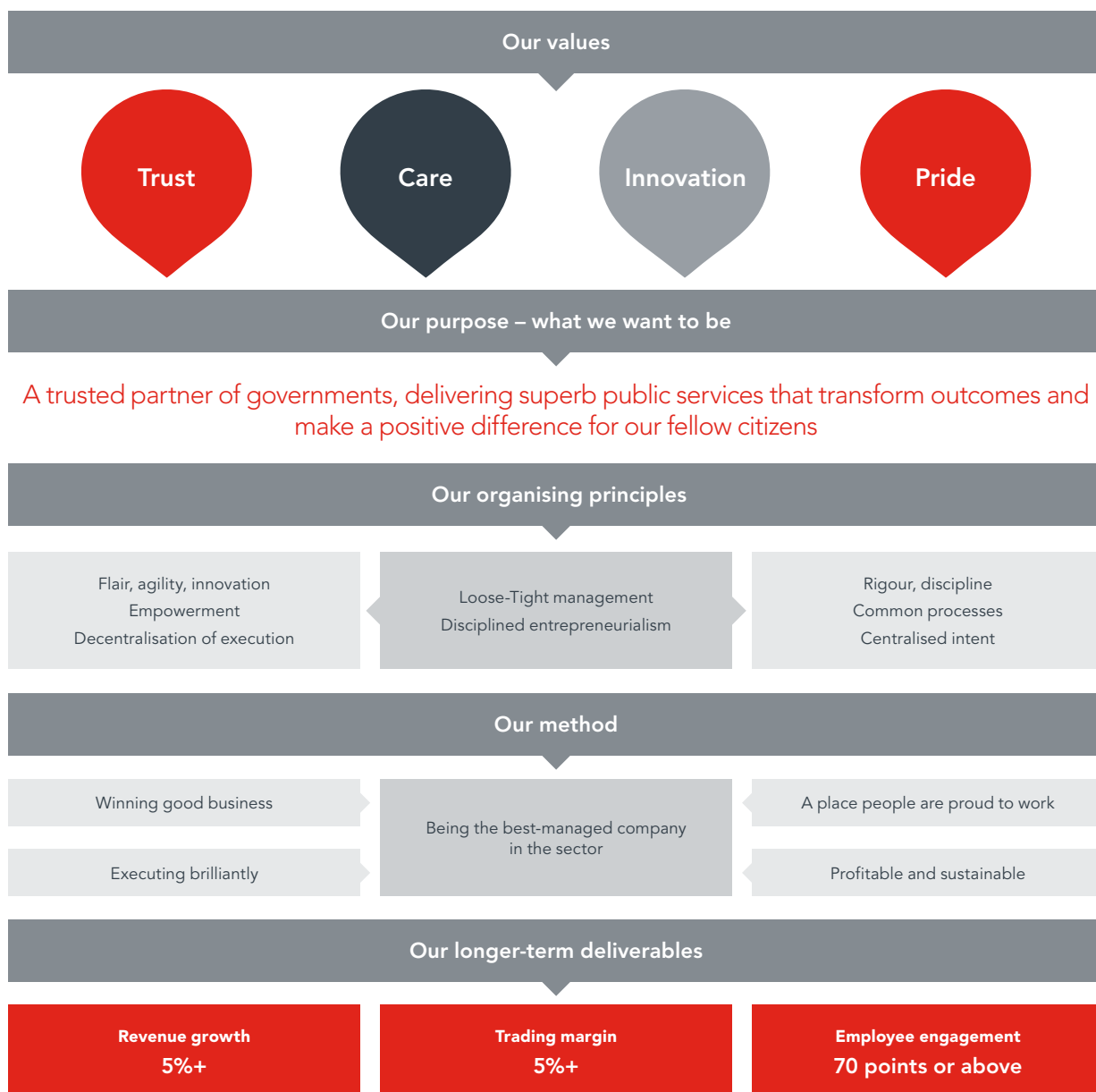
Having such an ambition may sound trite, but we believe that it is a worthy and value-creating aspiration, and one that we can use to inspire our management teams and customers. In any given circumstances, and whatever the slings and arrows of fortune, well-managed businesses do better than poorly-managed businesses, and the best-managed businesses do best of all.

As managers, our job is to ensure Serco delivers value to the people and institutions who have an interest in our success: to our customers and service-users, by providing high-quality, resilient and innovative public services; to our shareholders, by providing sustainable and growing returns on capital; to our lenders, by providing them with a solid and secure credit; and to our colleagues, by enabling them to have interesting and rewarding careers.

Our Performance Framework and Strategic Priorities

We are great believers in succinctness and simplicity.

Accordingly, we have managed to fit our performance framework and strategic priorities – of what might be considered a complex and diverse business – into a single graphic that we use throughout Serco.



The purpose of the performance framework is to provide a structure which will deliver value to our customers, shareholders, and to the people who work in the business. Like the Business Model, therefore, it ends with our deliverables and starts with our Values.

Our Performance Framework and Strategic Priorities continued

Our Values

Whilst we use technology and processes, the core of our business is people – many thousands of them – delivering public services. It is of central importance to our success that our colleagues, many of whom are former public servants, and our customers, know that we have values appropriate to a company delivering services funded by taxpayers to often vulnerable and disadvantaged citizens. “Working at the leading edge of technology” may be inspiring to people working for IT businesses, but they are not reasons why a prison officer makes a cup of tea for a suicidal prisoner at two o’clock in the morning; why a housing officer leaves the comfort of an office to guide a nervous asylum seeker’s child to school on their first day; why an engineer crawls into that impossibly small space in the foetid bowels of an aircraft-carrier to make sure the cable-ties are secured just right so they will stay in place in storm or battle. It is because they care about their work, they recognise the importance of what they do, and they take immense pride in it.

Before our customers will give us sensitive work, they have to trust us. And to win business we have to come up with innovative solutions which will enable governments to deliver more, and better, for less. This is why our Values of Trust, Care, Innovation and Pride are so important. We don’t pretend to be saints, or to be holier-than-thou; we are not so naïve as to believe that in a workforce of over 50,000 people there will not be some uncaring bad eggs, and we can reliably say that around the world, every day, at least one of our employees or subcontractors is not doing the right thing; this is one of the reasons why we invest so much time and effort into controls and assurance processes. But the overwhelming majority of our colleagues are decent, hard-working, committed, and want to make a positive difference to those they serve. In this, we reflect the values of our customers, which they call a “public service ethos”, and we call our Values.

Our organising principles

Our organising principles have to reflect the fact that many of the things our customers want are mutually exclusive: they want excellent and resilient services, delivered by highly motivated staff, but they want them to be low cost; they want local accountability and flexibility, but they also want strong governance and risk management. As a management team, we believe in the principle of subsidiarity: that decisions should be taken by managers who are as close to the customer as possible. But we are also conscious of the fact that many of our contracts carry with them risks that need careful management and supervision. So we describe our organising principles with two concepts: ‘loose-tight’, and ‘disciplined entrepreneurialism’. Neither of these is our own invention; they are based on the work of, respectively, Tom Peters and Jim Collins. They describe in subtly different ways an approach to management which recognises the need for both local management autonomy and strong governance. Two quotations from their works give a taste of the type of organisation we are trying to achieve:

“Loose-Tight... is the coexistence of central direction and maximum individual autonomy. ...Organisations that live by the loose-tight principle, are on the one hand rigidly controlled, yet at the same time allow (indeed insist on), autonomy, entrepreneurship, and innovation from their people.”

Tom Peters: *In Search of Excellence*

“Avoid bureaucracy and hierarchy and instead create a culture of discipline. When you put two complementary forces together – a culture of discipline with an ethic of entrepreneurship – you get a magical alchemy of superior performance and sustained results.”

Jim Collins: *Good to Great*

Organisationally we structure ourselves with three types of function: Divisions, Group and Shared Services. All operational delivery is executed through four geographic Divisions: UK & Europe, the Americas, Asia Pacific and the Middle East. Within their domains, Divisions are responsible for everything involved in winning and delivering contracts; 98% of our employees work in these Divisions. A lean Group function provides governance, strategy, asset allocation, policy-setting and controls and assurance roles, as well as certain specialist consolidation and functional roles in Finance, Legal, Risk, Insurance and HR; the Group also manages Centres of Excellence (CoEs) which provide focused expertise and support to the Divisions, and enable sharing of best practice and the development of common propositions in areas such as Justice & Immigration and Health. Shared Services provide common functional and processing support in areas such as IT, HR and finance to the Divisions.

Our method – the strategic priorities to achieve our aspiration

The method we use to deliver our aspiration – to be the best-managed business in our sector – and to deliver our strategy is to concentrate on doing four things really well. These are the four strategic priorities we want Serco to be famous for:

- Winning good business
- Executing brilliantly
- Being a place people are proud to work
- Being profitable and sustainable

We try to make sure that everything we do improves our performance against one or more of these objectives, and start from a position where we know we can do better.

We can improve the way we bid and manage contracts; develop innovative propositions; measure performance; reduce the cost and improve the quality of our administrative systems and processes. We can also continue to enhance our controls, assurance and compliance processes, and the robustness of our ‘three lines of defence’. None of these comes easily or quickly, and we need to steer a tricky course between the need to reduce our costs relative to revenues in the short term and investing in systems and processes that will produce sustainable benefits in the long term.

Our longer-term deliverables

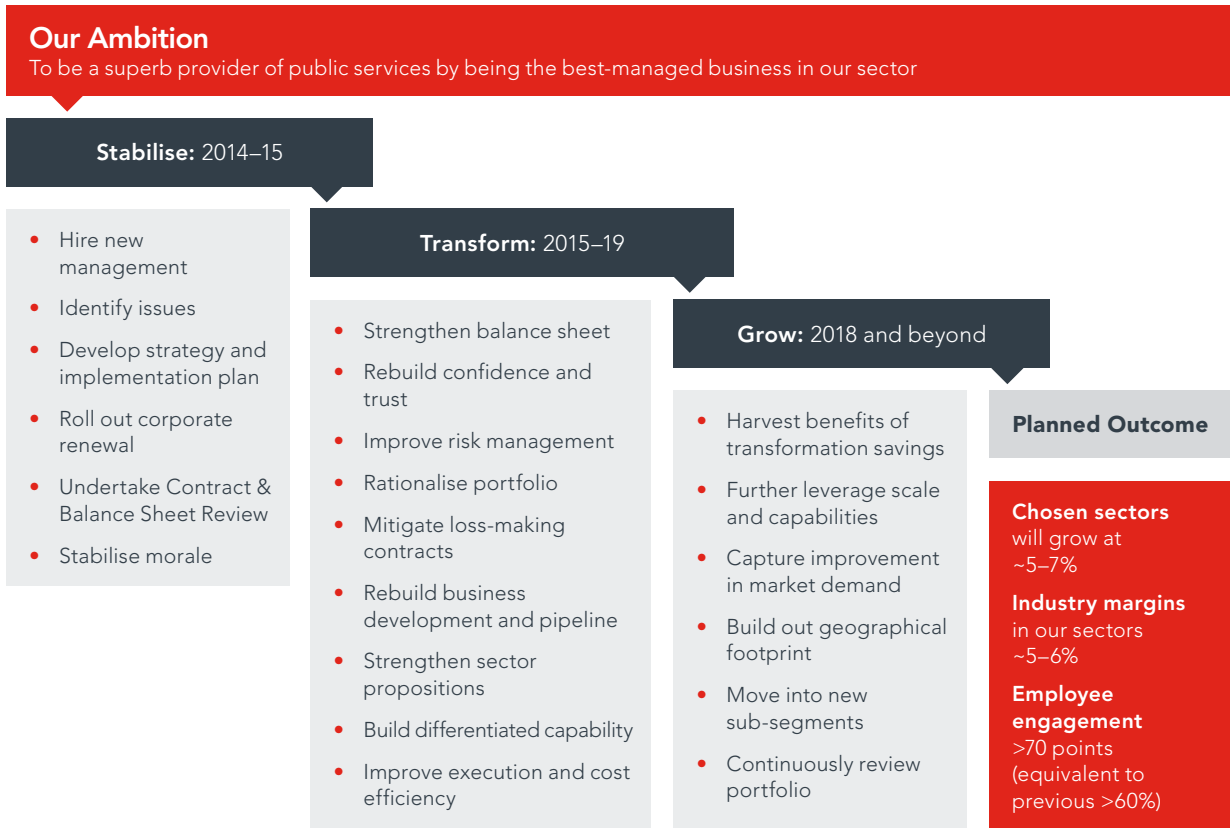
Our revenues were in organic decline for each of the five years of 2014 through to 2018, turning to growth in 2019, whilst our underlying trading margin declined to a nadir of 2.3% in 2017 and has now had two years of improving. Our challenge, and our opportunity, is to get back to long-term industry rates of revenue growth, which in the past were around 5-7%, and Trading Profit margins across Serco’s mix of business in the range of 5-6%.

Largely as a function of the weighting of our revenues to the UK – around 40% of the total Group – and the well-publicised travails of our home market, caused both by Brexit and the issues in government supplier relations described above, we revised our view to be that market growth was likely to be running at around 2-3% as a weighted average across our markets. We saw little likelihood that blended rates of growth across our markets would increase much beyond this in the immediate future, with much dependent on the nature of the UK Government post-Brexit, though Brexit itself may stimulate additional demand. Indeed, despite an outlook of increased political stability following the General Election in December, overall 2019 brought no discernible improvement in market conditions in the UK, although Serco itself achieved strong order intake and a return to organic growth for the first time in over five years. We were also able to deliver very strong organic growth in Australia, well ahead of market growth, and also very strong growth in North America where we capitalised on the uptick in US defence spending.

Whilst clearly experiencing some differing cycles in terms of Serco’s own particular geographies and sectors, we see no reason to believe that, in the longer term, the rate of market growth might not revert to the previous levels of 5%+, and similarly that Trading Profit margins of 5% can be achieved.

Strategic Implementation

In 2014 we identified three distinct phases in the implementation of our strategy:



The first phase – Stabilisation – recognised the urgent need to recapitalise the business and restore customer confidence and employee morale following the very significant write-downs upon the realisation that Serco had a number of very heavily loss-making contracts. This phase was largely completed in 2014, although the fundraising and essential stabilisation of our balance sheet did not take place until 2015 after which further rebuilding of customer confidence and trust could then follow. The Transformation phase gathered pace in 2016 and 2017, has continued through 2019, and has been an essential underpin as we have moved progressively into the Growth stage. When we launched the plan, it was conceived that Growth would refer to both revenues and profit.

However, more recently, we believe that market rates of growth have been lower and for the next few years the market may well only be more likely to grow at a low single-digit percentage rate, but Serco can challenge itself to grow in line with this or better, and our margins can still increase as we fully transition from our Transformation phase and see more benefit from cost efficiency. Nature does not draw lines – she smudges them, and the same applies to our strategy implementation, where the phases of Stabilisation, Transformation and Growth necessarily overlap.

Transform: progress to date

Key achievements during our Transformation phase have been:

- We have successfully strengthened our balance sheet, following the Rights Issue completed in April 2015 and the disposal of our private sector BPO business; together these raised over £700m, and our underlying leverage measure of Net Debt:EBITDA now stands at 1.31x, with period-end net debt reduced from £745m at the end of 2013 to £215m at the end of 2019.
- Portfolio rationalisation has been carried out, including the disposal of the majority of our private sector BPO business at the end of 2015.
- We have made further excellent progress rebuilding confidence and trust with our major customers, in large part due to greatly improved operational performance. In regard to the UK Government in particular, the SFO’s investigation as announced in November 2013 into Serco companies with regard to the Electronic Monitoring contract was concluded in July 2019. Over the last six years we have worked extremely hard to regain the trust and confidence of the UK Government, implementing a Corporate Renewal Programme which was approved by the UK Government and which has helped us to transform our corporate culture, processes and governance. The management and culture of Serco, and the transparency with which we conduct our affairs, have changed beyond all recognition, and we are pleased that this has been acknowledged by both the SFO and by the UK Government.

- We have continued to mitigate the impact of loss-making contracts; we have always regarded our Onerous Contract Provisions as a portfolio, knowing that the actual out-turn on individual contracts would almost certainly be different from the original estimates made at the end of 2014. Up to the end of 2019, actual expenditure against the £447m of Onerous Contract Provisions has been very close to the original estimate and the closing balance is now just £17m. In 2019, we successfully rebid two of the largest previously onerous contracts, COMPASS and PECS, while also increasing our market share.
- We have strengthened our sector propositions, including through the work carried out by our CoEs such as those covering Health and Justice & Immigration, which have been heavily involved in developing propositions to support major bids such as Barts Health NHS Trust (won in 2016) and Clarence Correctional Centre (previously known as Grafton prison) in Australia (won in 2017). Developing service innovations and transferring skills and capabilities have also been clear in awards such as the CMS rebid (secured in 2018) and the new Australia defence healthcare services contract (won in 2019).
- Our order intake has grown very substantially, such that in each of 2017, 2018 and 2019 it was ahead of revenue, the first time since 2012 that book-to-bill had been greater than 100%; at the end of 2019, our order book stood at a record £14.1bn.
- After three years of outflows, positive Free Cash Flow was achieved in 2018 and improved significantly in 2019. The outflows related to onerous contracts reduced by two-thirds between 2015 and 2019 and will be substantially down again in 2020, while working capital and cash flow management have also normalised.

Summary

We believe we have the right strategy for our business, and every year since 2015 we have delivered results which have been in line or ahead of our plan, which is no mean achievement. So far, so good, and 2018 and 2019 have seen Underlying Trading Profit grow by 34% and 29% respectively; in 2019 we have achieved organic revenue growth of 8%. But the long-term test of the strategy will be our ability to deliver further margin increases, together with continued profitable revenue growth. The market is currently growing at rates below historic trend, and our progress in 2019 has been driven more by our own success in driving order intake and making good operational progress. Looking ahead to 2020, we expect further organic revenue growth, the annualised contribution from the NSBU acquisition and additional improvement in our margin towards our target level.

In summary, our plan, first devised in 2014, seems to be working.

Grow: progress to date

We are now making significant progress in growing the business again, with key achievements being:

- After five years of decline, in 2019 the Group achieved organic revenue growth of 8% and is expecting around 4% for 2020. Improving our win rates and retention of work in our focused sectors and geographies has been paramount to achieving this.
- Two small bolt-on acquisitions were completed in 2018, BTP Systems (deepening our satellite and radar capabilities) and a portfolio of six Carillion health facilities management contracts (adding significant scale to our UK health business). In 2019, the acquisition of NSBU, a leading provider of ship and submarine design and engineering services, has added materially to the scale and capability of Serco's defence business, enhancing our current and future growth prospects further.
- Profits and margin grew significantly in both 2018 and 2019, and further progress is expected in 2020. In particular this reflects the success to date in reducing the businesses' operating costs; in 2018 they were more than £1bn lower than in 2014. The majority of this reduction relates to costs removed from contracts which have ended and businesses disposed of, but it is certainly an achievement to have reduced costs broadly in line with revenues. Importantly, our cost reduction also includes over £100m removed through our programmes to deliver overhead savings by reducing the number of management layers, implementing better procurement and driving greater efficiency in the operation of shared services.

Chief Executive's Review

Rupert Soames
Chief Executive



"The results for 2019 represent the first year of revenue growth since 2013 and the second successive year of growth in profits, and we expect continued strong progress in 2020. 15% revenue growth of which 8% was organic, 29% underlying profit growth and £5.4bn of order intake compares favourably with a market growing at 2-3%.

"Free Cash Flow has increased significantly, and our leverage ratio is at the lower end of our target range. All this indicates that we have finally achieved escape velocity, leaving behind the gravitational pull of past mis-steps, and gives the Board confidence to recommend paying a dividend for the first time since 2014, which is an important milestone. We are immensely grateful to our committed and hardworking colleagues, our patient shareholders and our supportive customers who have helped us reach this point.

"The benefits of having a broad international presence, with over 60% of our revenues and 50% of our employees outside the UK, are once again evident. We have delivered double-digit organic revenue growth in both our North

America and Asia Pacific Divisions, and demonstrated the ability to execute strategically important acquisitions such as NSBU in markets with premium rates of growth. But 2019 is also notable as being the first time since 2013 that revenues have grown in the UK.

"Perhaps the most significant aspect of 2019, however, was the record £5.4bn of order intake, representing 170% of annual revenues, and which resulted in our order book increasing to £14.1bn, an increase of around 40% over the last three years. This is the third successive year our order intake has exceeded our revenues, and underlines the confidence governments have in Serco's ability to deliver critical, sensitive and complex public services."

Summary table of financial results

Year ended 31 December	2019	2018	Change at reported currency	Change at constant currency
Revenue ⁽¹⁾	£3,248.4m	£2,836.8m	+15%	+13%
Underlying Trading Profit (UTP) ⁽²⁾	£120.2m	£93.1m	+29%	+25%
Reported Operating Profit (ie after exceptional items) ⁽²⁾	£102.5m	£80.5m	+27%	+22%
Underlying Earnings Per Share (EPS), diluted ⁽³⁾	6.16p	5.21p	+18%	+15%
Reported EPS (ie after exceptional items), diluted	4.21p	5.99p		
Dividend Per Share (recommended re-instated)	1.0p	n/a		
Free Cash Flow ⁽⁴⁾	£62.0m	£16.3m		
Adjusted Net Debt ⁽⁵⁾	£214.5m	£173.2m		
Reported Net Debt ⁽⁶⁾	£584.4m	£188.0m		

2018 Highlights

- Revenue⁽¹⁾ of £3.2bn increased by 14.5%, comprising 8.2% organic growth, 4.8% contribution from acquisitions and 1.5% currency benefit. Very strong constant currency growth in Americas (+35%, of which +19% was organic) and Asia Pacific (+16%). UK & Europe (+5%) grew revenues for the first time since 2013; Middle East (-2%) did well in a difficult market.
- Underlying Trading Profit⁽²⁾ of £120.2m increased by £27.1m or 29% (25% at constant currency); the NSBU acquisition contributed £8.6m of the increase. The Group's Underlying Trading Profit margin increased by 40 basis points to 3.7%.
- Reported Operating Profit increased by £22.0m, £5.1m less than the increase in UTP as a result of the net impact of various non-trading items including £22.9m related to the conclusion of the SFO investigation and £9.6m related to the commercial settlement received from the MoD as a result of the Defence Fire and Rescue Project tender. Exceptional items included in Reported Operating Profit, at £23.4m, were £8.5m lower than the prior year.
- Onerous Contract Provisions (OCPs) have run off broadly as we expected, with the remaining liability now just £17m. We estimate the total value of OCPs will have been within 2% of the original £447m as at December 2014.
- Underlying EPS of 6.16p increased by 18%, reflecting the growth in Underlying Trading Profit, together with the benefit of the tax rate reducing from 26% to 25%, but with this partially offset by the increase in the number of shares following the Equity Placing in May 2019 to fund the Naval Systems Business Unit (NSBU) acquisition. Reported EPS in the prior year benefited from a number of non-underlying tax credits totalling £11.8m which did not recur in 2019.
- Free Cash Flow⁽⁴⁾ improved sharply to £62m (2018: £16.3m), due to the increase in underlying profits, neutral working capital movement and lower cash outflows on the residual OCP portfolio. The number of supplier invoices in the UK paid within 30 days increased to 86% (2018: 85%).
- Adjusted Net Debt⁽⁵⁾ at £215m increased over the year by £41m, as the £62m of positive Free Cash Flow was offset by the £55m of acquisition consideration not covered by the Equity Placing relating to the NSBU acquisition; in addition there was a £49m outflow related to exceptional items (2018: £19m).
- Leverage for covenant purposes was 1.17x; underlying leverage was 1.31x. Daily Average Adjusted Net Debt was broadly unchanged at £231m (2018: £219m).
- Acquisition of NSBU, a leading provider of ship and submarine design and engineering services to the US Navy that adds materially to the scale and capability of Serco's defence business, completed in August 2019. Integration progressing smoothly and the business has traded to plan. The acquisitions completed in 2018 of BTP Systems (deepening our satellite and radar capabilities) and of six Carillion health facilities management contracts (adding significant scale to our UK Health business) have performed in line with our expectations.
- Order intake was very strong at a record £5.4bn, representing around 170% of revenues; the three largest awards were for asylum accommodation and support services in the UK valued at £1.9bn, Prisoner Escort and Custody Services also in the UK valued at £0.8bn, and defence healthcare provision in Australia valued at £0.6bn; over 40% of the order intake comprised new business, and the balance was existing work being rebid or extended.
- Order book increased by £2.1bn to £14.1bn, predominately reflecting the strong order intake. Since the start of 2017 the value of our order book has increased by around 40%.
- The Pipeline of larger new bid opportunities closed 2019 at £4.9bn; it was £5.3bn at the start of the year, but reduced to £3.2bn at the half-year stage, reflecting in large part the very strong result of contract awards, followed by good progress in replenishing the pipeline during the second half of 2019.
- Revenue guidance for 2020 is £3.4-3.5bn, representing total growth of 6-8%, which assumes organic growth of around 4%, an acquisition contribution of 5-6% from the annualisation of NSBU, and a currency headwind (based upon recent rates⁽⁶⁾) of 2-3%. Underlying Trading Profit is expected to grow by about 20% to around £145m. This guidance is unchanged from that given at the Closed Period trading update issued on 12 December 2019⁽⁷⁾.
- The Board recommends restarting dividends, last paid to Serco shareholders in 2014, with a payment of 1.0p in respect of the 2019 financial year. Assuming this payment and an interim dividend for 2020 in line with our approach, Adjusted Net Debt guidance at the end of 2020 is approximately £200m, with leverage expected to be towards the lower end of our normal target range of 1-2x.

Chief Executive's Review continued

Notes to financial results summary table and highlights:

- (1) Revenue is as defined under IFRS, which excludes Serco's share of revenue of its joint ventures and associates. Organic revenue growth is the change at constant currency after adjusting to exclude the impact of relevant acquisitions or disposals. Change at constant currency is calculated by translating non-Sterling values for the year ended 31 December 2019 into Sterling at the average exchange rates for the prior year.
- (2) Trading Profit is defined as IFRS Operating Profit excluding amortisation of intangibles arising on acquisition as well as exceptional items. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates. Underlying Trading Profit additionally excludes Contract & Balance Sheet Review adjustments (principally Onerous Contract Provision (OCP) releases or charges) and other material one-time items. A reconciliation of Underlying Trading Profit to Trading Profit and Reported Operating Profit is as follows:

Year ended 31 December	2019 £m	2018 £m
Underlying Trading Profit	120.2	93.1
Include: non-underlying items		
Contract & Balance Sheet Review adjustments and one-time items	3.6	23.6
Settlement received re DFRP tender	9.6	-
Trading Profit	133.4	116.7
Amortisation of intangibles arising on acquisition	(7.5)	(4.3)
Operating Profit before exceptional items	125.8	112.4
Operating exceptional items	(23.4)	(31.9)
Reported Operating Profit (after exceptional items)	102.5	80.5

- (3) Underlying EPS reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs and related tax effects.
- (4) Free Cash Flow is the net cash flow from operating activities before exceptional items as shown on the face of the Group's Consolidated Cash Flow Statement, adding dividends we receive from joint ventures and associates, and deducting net interest and net capital expenditure on tangible and intangible asset purchases. The results for the year ended 31 December 2018 have been restated to include within Free Cash Flow the capital repayment of finance lease liabilities of £8.7m (2019 includes an equivalent £5.9m accounted for in accordance with IFRS16); as this was previously included beneath Free Cash Flow, there is no impact on net cash flow.
- (5) Adjusted Net Debt has been introduced by Serco as an additional non-IFRS Alternative Performance Measure (APM) used by the Group. This measure more closely aligns with the covenant measure for the Group's financing facilities than Reported Net Debt because it excludes all lease liabilities including those newly recognised under IFRS16. The results for the year ended 31 December 2018 have been restated to exclude from Adjusted Net Debt £14.8m of obligations under finance leases accounted for in accordance with the previous standard for leases, IAS17 (2019 excludes an equivalent £8.9m accounted for in accordance with IFRS16).
- (6) Reported Net Debt includes all lease liabilities, including those newly recognised under IFRS16. In accordance with the Group adopting the modified retrospective transition approach for IFRS16, comparative information such as net debt and other financial performance measures are not restated for the effect of this new accounting standard; instead, the cumulative effect of initially applying IFRS16 is reflected as an adjustment to opening equity at the date of initial application, which for Serco is 1 January 2019. A reconciliation of Adjusted Net Debt to Reported Net Debt is as follows:

As at	31 Dec 2019 £m	31 Dec 2018 £m
Adjusted Net Debt	214.5	173.2
Include: all lease liabilities accounted for in accordance with IFRS16	369.9	n/a
Include: lease liabilities accounted for in accordance with IAS17	n/a	14.8
Reported Net Debt	584.4	188.0

- (7) Our outlook for 2020 is summarised as follows:

2020 outlook	Latest view	As at 12 December 2019
Revenue	£3.4-3.5bn	£3.4-3.5bn
UTP	~£145m	~£145m
Closing Adjusted Net Debt	~£200m	~£200m

- (8) Our outlook for 2020 is based upon currency rates as at 31 January 2020. The rates used, along with their estimated impact on revenue and UTP are as follows:

Year ended 31 December	2020 outlook	2019 actual	2018 actual
Average FX rates:			
US Dollar	1.31	1.28	1.34
Australian Dollar	1.95	1.83	1.78
Euro	1.19	1.14	1.13
Year-on-year impact:			
Revenue	(£80-90m)	+£42m	(£65m)
UTP	~(£5m)	+£3.7m	(£4.0m)

Reconciliations and further detail of financial performance are included in the Finance Review on pages 42 to 59. This includes full definitions and explanations of the purpose and usefulness of each non-IFRS Alternative Performance Measure (APM) used by the Group. The consolidated financial statements and accompanying notes are on pages 167 to 227. Further details regarding the impact of the adoption of IFRS16 are included in note 2 to the consolidated financial statements on pages 173 and 174.

Summary of financial performance

Revenue and Trading Profit

Reported Revenue increased 14.5% to £3,248m (2018: £2,837m); in accordance with IFRS this measure excludes Serco's share of revenue from joint ventures and associates of £395m (2018: £375m). Net currency movements increased revenue by £42m or 1.5%, whilst the net revenue contribution from acquisitions added £140m or 4.8% which splits approximately 1% from the Carillion health facilities management contracts that transferred to Serco between June and August last year and 4% from Naval Systems Business Unit (NSBU) which completed at the start of August 2019. At constant currency, the organic revenue growth was therefore £230m or 8.2%, accelerating from 4% in the first half of the year to 12% in the second half. The very strong growth rate in the second half included the start of the two particularly large contract awards (the AASC asylum accommodation and support contract in the UK, and the AHSC defence garrison healthcare services contract in Australia) and better-than-expected short-term volume related work, notably from our customers on US defence frameworks, the US Federal Emergency Management Agency (FEMA) contract, as well as certain Citizen Services operations in Australia. This has resulted in particularly strong organic growth in each of our Americas and AsPac Divisions, and, after several years of organic decline in the UK & Europe Division, we saw encouraging organic growth in the second half of 2019.

Underlying Trading Profit (UTP) increased by £27.1m or 29% to £120.2m (2018: £93.1m); excluding the £3.7m favourable impact of currency and the £1.2m increase from the adoption of IFRS16, the increase in UTP was £22.2m or 24%. Profit growth was driven by the Americas Division in the first half by the CMS contract, which experienced an unusually high volume of fixed-price variable work in the first few months of the year, and in the second half of the year from the NSBU acquisition. Profits in the UK benefited from the Carillion health facilities management acquisition; successful mobilisation of the AASC contract saw mobilisation costs, expensed largely in the first half of the year, being offset by its move into profitability in the second half. Profits also increased in the AsPac Division, again driven by its particularly strong organic growth performance, whilst profits fell in the Middle East Division, which largely reflects the significant reduction in the defence logistics MELABS contract as described a year earlier. The Group's Underlying Trading Profit margin was 3.7%, an increase of 40 basis points.

Trading Profit was £133.4m (2018: £116.7m), £13.2m higher than UTP, which reflects a net £3.6m credit in Contract & Balance Sheet Review and one-time items (2018: net credit of £23.6m), and £9.6m of the commercial settlement received by Serco regarding the Defence Fire and Rescue Project (DFRP) tender. As with prior years, both Trading Profit and Underlying Trading Profit benefited from losses on previously-identified onerous contracts being neutralised by the utilisation of Onerous Contract Provisions (OCPs); the £40.9m utilised on losses in 2019 (excluding IFRS16-related accelerated utilisation) was in line with expectations and lower than the prior year utilisation of £51.8m; we expect utilisation to drop further in 2020. The closing balance of OCPs now stands at £17m, compared to £82m at the start of the year and the initial charge of £447m taken at the end of 2014; we estimate the total value of OCPs will have been within 2% of that original estimate.

Reported Operating Profit and Exceptional Costs

Reported Operating Profit of £102.5m (2018: £80.5m) was £30.9m lower than Trading Profit as a result of, first, £7.5m (2018: £4.3m) of amortisation of intangibles arising on acquisition, and second, operating exceptional costs of £23.4m (2018: £31.9m). The latter includes the £22.9m for the fine and costs regarding the conclusion of the SFO investigation, restructuring programme costs of £12.8m (2018: £32.3m) related to the final steps in the implementation of the Transformation stage of our strategy, and a £19.3m non-cash release of a provision that had been originally charged in 2014 in relation to commercial disputes. After exceptional net finance costs of £nil (2018: £7.5m net credit) and an exceptional tax charge of £2.7m (2018: credit of £2.1m), total net exceptional costs were £26.1m (2018: £22.3m).

Financing and pensions

Pre-exceptional net finance costs were £21.8m (2018: £13.9m), with the increase driven by £6.9m (2018: £0.6m) of the interest component of leases as required under IFRS16, and £3.0m of non-cash credits no longer earned following the repayment of the Intelenet loan note in October 2018. On a daily average basis, Adjusted Net Debt was broadly unchanged at £231m (2018: £219m). Cash net interest paid was £22.2m (2018: £18.1m).

Serco's pension schemes are in a strong funding position, resulting in a balance sheet accounting surplus, before tax, of £54m (31 December 2018: £71m) on scheme gross assets and gross liabilities each of approximately £1.4bn. The opening net asset position led to a net credit within net finance costs of £2.1m (2018: £0.8m). For the Group's main scheme, the Serco Pension and Life Assurance Scheme (SPLAS), the purchase of a bulk annuity from an insurer, has the effect of fully removing longevity, investment and accounting risks for around half of all scheme members; the gross liability remains recognised on our balance sheet, but there is an equal and opposite insurance asset reflecting the perfect hedge established by the annuity.

Chief Executive's Review continued

Tax

The underlying effective tax cost was £24.4m (2018: £20.6m), representing an underlying effective rate of 25% (2018: 26%) based upon £98.4m (2018: £79.2m) of Underlying Trading Profit less net finance costs. The rate is higher than the UK statutory rate of corporation tax as there was no deferred tax credit taken against UK losses incurred in the year, and because it reflects the tax charges at locally prevailing rates in the international Divisions which tend to be higher than the UK's rate; these two factors are partially offset by the proportion of Serco's profit before tax generated by consolidating our share of joint venture and associate earnings which have already been taxed. The rate in 2019 is lower than the prior year reflecting the improvement in, and changing mix of, the Group's profitability; we expect the rate to continue at around 25%, which reflects our updated expectations for the proportions of profits coming from our UK and international operations, and the anticipated tax rates in each jurisdiction.

Tax on non-underlying items was a net charge of £3.0m (2018: credit of £11.8m), which includes an additional £0.8m (2018: £2.9m) of deferred tax asset in relation to UK losses to reflect the improved forecast of UK taxable income; the prior year credit related predominantly to deferred tax movements associated with changes in the valuation of the Group's defined benefit pension schemes. Total pre-exceptional tax costs were £27.4m (2018: £8.8m). Tax on exceptional items was £2.7m (2018: tax credit of £2.1m). The total tax charge was therefore £30.1m (2018: £6.7m) and net cash tax paid was £31.2m (2018: £10.6m), which includes the effect of tax paid in 2019 on non-underlying items that were credits in the prior year, as well as the timing of tax payments on account.

Reported result for the year

The reported result for 2019, as presented at the bottom of the Group's Consolidated Income Statement on page 167, is a profit of £50.6m (2018: £67.4m). This comprises Reported Operating Profit of £102.5m (2018: £80.5m), Reported Profit Before Tax of £80.7m (2018: £74.1m) and Tax of £30.1m (2018: £6.7m). The reported tax charge increased by £23.4m in 2019 as a result of increases in tax on non-underlying and exceptional items of £19.6m in addition to the £3.8m increase in tax on underlying profit.

Earnings Per Share (EPS)

Diluted Underlying EPS, which reflects the Underlying Trading Profit measure after deducting pre-exceptional net finance costs and related tax effects, increased by 18% to 6.16p (2018: 5.21p). The improvement reflects the 29% increase in Underlying Trading Profit and the lower tax rate, partially offset by the increase in net finance costs; EPS growth was tempered by the 6% increase in the weighted average number of shares in issue, after the dilutive effect of share options, to 1,199.0m (2018: 1,125.4m), with the increase largely as a result of the approximate seven-month effect of the additional Placing shares from 28 May 2019. Diluted Reported EPS, which includes the impact of the other non-underlying items and exceptional costs, was 4.21p (2018: 5.99p).

Cash Flow and Net Debt

Free Cash Flow improved to £62.0m (2018: £16.3m), which included the effect of the increase in underlying profits as described above as well as receipt of the £9.6m DFRP settlement. The cash outflows related to loss-making contracts subject to OCPs (principally the Caledonian Sleeper, COMPASS and PECS) reduced, reflected in the lower rate of provision utilisation of £40.9m (2018: £51.8m). Working capital movements were also broadly neutral, with a net outflow of just £0.1m compared to an outflow of £21.6m in the prior year. The Group did not utilise any working capital financing facilities in 2019 or the prior year, and has no such facilities in place. Average working capital days for the year were broadly unchanged; we are proud to say that 86% of UK supplier invoices were paid in under 30 days, up from 85% in 2018, and 96% were paid in under 60 days. Of other movements within Free Cash Flow to note, cash tax paid was higher but capital expenditure was lower, both of which include some timing effects.

Adjusted Net Debt at 31 December 2019 increased to £214.5m (31 December 2018: £173.2m); our key measure of Adjusted Net Debt excludes all lease liabilities, which now total £370m including those newly recognised under IFRS16, and the Adjusted measure more closely aligns with that for covenant purposes of our financing facilities. The increase of £41.3m includes the Free Cash inflow of £62m, offset principally by three sources of outflow: first, the £55m net outflow for acquisitions (2018: £31.3m), driven by the consideration payment of £184m for NSBU and the £139m of Equity Placing proceeds; second, £22.9m relating to the conclusion of the SFO investigation; and thirdly an outflow of £26.3m related to other exceptional items (2018: £19.2m). The closing Adjusted Net Debt of £214.5m compares to a broadly unchanged daily average of £231m (2018: £219m) and a peak net debt of £357m (2018: £292m), with this increase reflecting the timing of the payment of exceptional costs and acquisition consideration.

Reported Net Debt was £584m (2018: £188m), which includes the £370m (2018: £15m) related to leases. The increase in leases was largely related to the mobilisation of the 10-year AASC contract in 2019.

At the closing balance sheet date, our leverage for debt covenant purposes was 1.17x EBITDA (2018: 1.06x). This compares with the covenant requirement to be less than 3.5x. Our underlying net debt leverage, which excludes non-underlying items within covenant EBITDA such as the DFRP settlement and OCP releases, was 1.31x (2018: 1.23x), which is in the lower half of our normal target range of 1-2x underlying net debt to EBITDA.

The Revenue and Trading Profit performances are described further in the Divisional Reviews. More detailed analysis of earnings, cash flow, financing and related matters are described further in the Finance Review.

Dividend recommendation

When dividend payments were suspended in 2014, the Board committed to resuming dividend payments to Serco's shareholders as soon as it judged it prudent to do so. 2019 has been a year of very strong operational and financial performance. It is also the last year of significant outflows of cash related to OCPs and restructuring exceptional costs. Our expectations for 2020 are for further good progress in increasing underlying earnings and reducing financial leverage.

The Board is therefore recommending the payment of a final dividend in respect of the 2019 financial year. Our intention going forward is to weight dividend payments roughly one-third : two-thirds between interim and final payments. The Board considers it appropriate to reintroduce the dividend payments at a level of underlying EPS cover initially of around four times, equivalent to a payout ratio of approximately 25%. The Board is therefore recommending the payment of a final dividend in respect of the 2019 financial year of 1.0p. The dividend, subject to shareholder approval at the Annual General Meeting on 14 May 2020, would be paid on 5 June 2020.

A combination of this final dividend in respect of the 2019 financial year, together with an interim dividend in respect of 2020 aligned to the recommended dividend and outlook as described, would result in a cash outflow for dividend payments to shareholders of around £20m in 2020. This has been taken account of in our guidance for 2020 Adjusted Net Debt and leverage.

The Board will keep the dividend, including the payout ratio, under regular consideration as we continue to implement the growth stage of our strategy. This will consider views of the Group's underlying earnings, cash flows and financial leverage, together with the prevailing market outlook. The Board is mindful of the requirement to maintain an appropriate level of dividend cover, the potential alternative uses of capital to generate incremental value for shareholders, and the desire to maintain financial flexibility and a strong balance sheet that is considered appropriate for Serco's ability to deliver sustainable value for all of the Group's stakeholders.

Contract awards, order book, rebids and Pipeline

Contract awards

2019 was a record year for order intake, with almost all regions performing very strongly. At £5.4bn, order intake represented a book-to-bill ratio (the relationship between orders received and revenue recognised) of around 170%, and 2019 was the third year in succession that the book-to-bill ratio exceeded 100%, which helped to drive our order book to record levels. There were over 50 contract awards worth more than £10m each, but there were four particularly large awards which accounted for approaching two-thirds of the intake for the year.

In the UK, we won our largest ever contract, being an estimated £1.9bn over 10 years for AASC (providing asylum accommodation and support services). As previously set out, the AASC contracts are particularly significant, as they replace the COMPASS contracts which had been incurring losses (offset in the P&L by the utilisation of the OCP) of around £15-20m on average per year for the last five years.

Under the new AASC contracts, we did not retain the Scotland & Northern Ireland region, but gained the much larger Midlands & East of England region, whilst retaining our other previous COMPASS region of the North West; as a consequence, we are now the largest provider of asylum seeker accommodation in the UK. Given our past experience, we also bid the regions at prices which we believe should allow us to make a fair return.

The Group's second largest contract award for the year was also in the UK, where the UK Ministry of Justice (MoJ) selected Serco to continue operating the Prisoner Escort & Custody Services (PECS) in a contract valued at £0.8bn over 10 years. Similar to COMPASS/AASC, this is a successful rebid of a contract previously incurring losses that were being offset by an OCP, and also similar to AASC in that Serco was selected to provide these sensitive and demanding services over a significantly increased geographical area.

The next two largest contract awards were in Australia. Serco won a new AU\$1.01bn (around £560m) contract over an initial six-year term to provide health services personnel to the Australian Defence Force at garrisons across the country, working as a sub-contractor to BUPA. We also secured a two-year extension for immigration services with an estimated value of £0.4bn.

We have not included within our order intake the contract to continue operating the Northern Isles Ferry Services, which was announced by the customer in September 2019 and has an estimated total contract value of £450m, as we have not yet signed the contract due to a procurement challenge by the unsuccessful bidder. In early February 2020 the Scottish Government announced that all barriers to the award of the contract had been resolved, and that signing the definitive contract is anticipated to occur in the coming months.

Other notable contract awards included, in the UK & Europe Division: rebid and expansion of our work on the Skills Support for the Workforce Programme; a new environmental services contract with the Royal Borough of Windsor and Maidenhead, together with numerous other contract extensions for similar services; extending defence support contracts for the UK MOD and the US Air Forces in Europe; and securing our contact centre operations for Companies House and our support services to the European Organisation for Nuclear Research (CERN).

Americas had a strong year of order intake, including: a new win for field office services to the US Pension Benefit Guaranty Corporation worth up to \$200m; extending work we perform for the Federal Retirement Thrift Investment Board (FRTIB); support to transitioning military service members valued at \$95m; an \$82m award for NexGen IT solutions US Air Force Civil Engineering; increased task orders on ship and shore modernisation and hardware frameworks totalling over \$250m as well as those for our support services to the Federal Emergency Management Agency (FEMA) totalling over \$100m; and the acquired businesses of NSBU and BTP Systems also achieved pleasing contract awards as referred to in the Acquisitions section below.

Chief Executive's Review continued

In AsPac, a new AU\$115m contract to operate the Adelaide Remand Centre on behalf of the South Australia Department for Correctional Services was won, we extended our contract for South Queensland Correctional Centre and successfully rebid our contract for traffic camera services in the State of Victoria. In the Middle East, we signed the contract extension to continue operating the Dubai Metro, as well as extensions for air traffic control services in Dubai and Iraq, several facilities management awards in Abu Dhabi, and a new contract for public infrastructure advisory services for Mashroat in Saudi Arabia.

Of the total order intake, over 40% comprised new business, with the balance represented by the value of rebids and extensions of existing work. Reflecting the scale of the AASC and PECS awards, around 55% of order intake came from the UK, with the remaining 45% from customers of our Americas, AsPac, Middle East and continental European businesses.

Bids for new work that were unsuccessful in the year included the defence deployable health opportunity in Australia, the Eastern Harbour Crossing and the Tsing Ma Control Area transport operations in Hong Kong, and environmental services and health facilities management tenders in the UK and AsPac. Of existing work, the largest loss was for the Scotland & Northern Ireland region of the COMPASS contract, however this was more than offset by winning the new larger region of the Midlands & East of England, whilst keeping our existing North West of England region. The next largest rebid loss was that for transport management of the Tsing Sha Control Area in Hong Kong which had annual revenue of around £20m, equivalent to around 0.6% of the Group overall; as this was an onerous contract it does not impact UTP. The next two largest rebid losses each had annual revenue of £10-15m, which were the Cleveland Clinic healthcare facilities management contract in Abu Dhabi and traffic management services to the US state of Georgia Department of Transportation.

The win rate by value for new work, which has been 20-25% for the last four years, increased to around 40% particularly as a result of the value of the new AASC Midlands & East of England region and the new Australia defence health contract. The win rate by value for securing existing work was around 65%, which is lower than the 75-90% trend in recent years, but which is reflective of losing the existing Scotland COMPASS region; if the Scotland COMPASS region were excluded, the win rate by value for existing work would have been over 90%. Win rates by volume were over 50% for new bids and over 90% for rebids and extensions.

2019's £5.4bn of order intake was an exceptional performance. However, in our business, order intake is lumpy, and we expect in 2020 that order intake will be significantly lower than that which we saw in 2019.

Order book

Driven by the very strong order intake, the Group's order book closed the year at an estimated £14.1bn, up by £2.1bn versus the £12.0bn at the start of 2019. The order book takes into account any required changes in assumptions for existing contracts including currency movements, as well as the addition through the acquisition of NSBU which has visibility of around \$700m of future revenue but only \$200m is taken into the order book as the balance is unexercised options.

This order book definition is therefore aligned with the IFRS15 disclosures of the future revenue expected to be recognised from the remaining performance obligations on existing contractual arrangements. It is worth noting that as it excludes unsigned extension periods; the £14.1bn would be £15.3bn if option periods in our US business were included; as option periods have always tended to be exercised in our US business, we do include these in our assessment of order intake, but in accordance with IFRS15 we do not include them in the order book until they are exercised. Furthermore, the order book definition excludes our share of expected revenue from contractual arrangements of our joint ventures and associates which would add a further £1.5bn if included within our order book, driven by the current pricing period of the AWE operations and the Merseyrail franchise.

There is £2.6bn of revenue already secured in the order book for 2020, equivalent to around 75% visibility of our £3.4-3.5bn revenue guidance; the 'gap' in visibility is typically closed by our US business receiving the exercise of contract option periods and through short-term task order work on framework contracts, together with the necessary securing of contract extensions or rebids across the rest of the Group.

Rebids

As we look ahead the customary three years through to the end of 2022, across the Group there are over 70 contracts in our order book with annual revenue of over £5m where an extension or rebid will be required, representing current annual revenue of around £1.5bn in aggregate or over 40% of the Group's 2020 revenue guidance. The proportion of revenue that requires securing at some point over the next three years is normal given our average contract length of around seven years (or approximately ten years on average on a revenue-weighted basis, as larger contracts typically have longer terms); at the start of 2018 the three-year forward rebid value was £1.4bn and at the start of 2019 it was £1.2bn. Contracts that could potentially end at some point before the end of 2020 have aggregate annual revenue of around £300m, though none individually exceed £50m. In 2021, the aggregate annual value of contracts due for extension or re-compete is currently around £800m, with this including our operations for the Dubai Metro and Fiona Stanley Hospital in Australia, each of which account approximately for 3% of Group revenue. In 2022, the aggregate annual revenue due for extension or re-compete at some point in that year is around £400m; this includes the Australian immigration services contract due to end in December 2021 unless the option for a further extension is exercised or a rebid is won, and which currently accounts for over 5% of Group revenue.

Pipeline

As we have previously described, Serco's measure of Pipeline is probably more narrowly defined than is common in our industry; it was originally designed as an indicator of future growth and focuses on bids for new business only. As a consequence, on average over the last five years, less than half of our achieved order intake has come from the Pipeline. It measures only opportunities for new business that have an estimated Annual Contract Value (ACV) greater than £10m, and which we expect to bid and to be awarded within a rolling 24-month timeframe; we cap the Total Contract Value (TCV) of individual opportunities at £1bn, to attenuate the impact of single large opportunities; the definition does not include rebids and extension opportunities; and in the case of

framework, or call-off, contracts such as 'ID/IQ' (Indefinite Delivery / Indefinite Quantity contracts which are common in the US) we only take the individual task orders into account. It is thus a relatively small proportion of the total universe of opportunities, many of which either have annual revenues less than £10m, or are likely to be decided beyond the next 24 months, or are rebids and extensions.

On this definition our Pipeline stood at £4.9bn at the close of 2019. At the beginning of 2019 it was £5.3bn, however, as we noted at the time of reporting the results for the 2018 financial year back in February 2019, we had already won in the first month of the year the two largest opportunities in this Pipeline which reduced it by £1.7bn. Other wins, losses and a small number of removals due to opportunities no longer meeting our definition reduced the Pipeline further, such that it stood at £3.2bn at the half-year stage. With a number of opportunities maturing to the stage where they meet our Pipeline definition, together with our ongoing Business Development progress to reload the Pipeline with new opportunities, we therefore saw the Pipeline increase in the second half of the year. The closing position consisted of around 30 bids that have an ACV averaging approximately £30m and a contract length averaging around six years. The UK & Europe and Americas Divisions each represent around 40% of the Group's pipeline, with the AsPac and Middle East Divisions the balance.

As we have noted before, in the services industry in which Serco operates, pipelines are often lumpy, as individual opportunities can be very large, and when they come in and out of the Pipeline they can have a material effect on reported values. Whilst the second half of 2019 did produce an expected increase in the Pipeline, and market conditions may over time become more favourable, it does not particularly support that Pipeline progress is either 'straight line' nor strongly predictive of future revenues.

Going forward, Serco will change its Pipeline definition to no longer exclude opportunities for new business that have an estimated ACV smaller than £10m. At around £1.6bn, smaller opportunities in aggregate are a significant component of the Pipeline and potential growth, and likely to be increasingly so given the use of task orders under framework contracts; the Pipeline on this basis therefore increases from £4.9bn to approximately £6.5bn.

Operational progress, transformation and innovation

We have an ambition to be the best-managed business in our sector. Achieving this will require investment in people, processes and systems. Each are described below.

People

Serco is a business that provides people-enabled public services. In nearly all our contracts, what government customers are buying is the service and expertise of people who are knowledgeable, disciplined, reliable, committed to delivering public services, appropriately paid and well led and managed. It therefore is central to our ability to deliver effectively to our customers that our colleagues within the business feel engaged.

Since 2011, Serco has carried out an employee survey every year, to which a large majority of the eligible workforce respond – around 27,000 people in 2019. The survey has about 50 questions covering everything from attitudes to health and safety, relationships with peers, respect for diversity and many other dimensions. We also test an "engagement score" which is a standard method of allowing companies to measure and benchmark from year to year what in olden times would have been called "morale". The progression of these scores in the run-up to the disastrous years of 2013 and 2014, and our subsequent recovery, tell the tale of Serco's turnaround as eloquently as any financial metrics:

	2011	2012	2013	April 2014*	Oct 2014*	2015	2016	2017	2018**	2019
Leaders	65	56	51	38	51	55	72	71	69	77
Managers	54	51	49	n/a	58	59	62	65	70	73
All employees	45	45	42	42	51	53	54	56	67	71

Notes:

* in 2014 two surveys were done.

** in 2018, the methodology for calculating employee engagement changed, aligned to the new specialist third party provider of the survey. As reported at the time, it is not possible to adjust historic data to restate to the new methodology, but analysis performed by the new provider in 2018 indicated that the engagement level for that year was broadly stable on the previous year's score.

Two things shine out from these numbers: in 2011 and 2012, there was a huge difference in the experience as an employee of Serco to the experience of the 300 or so leaders. And in 2018 and 2019, not only are the scores much higher, they are much more tightly grouped, which says that the morale of the workforce is similar to that of managers and leaders. It is a good thing, and actually quite rare, to find such close correlation between leaders' and employees' morale in companies in our industry and with our scale.

One other fact worth mentioning: in 2019 we opened up the questionnaire to allow free-text answers to questions, with specific opportunities to make comments to the Board. To our amazement, the 27,000 respondents made some 50,000 individual comments, and ever since we have been trying to work out how we can digest that much feedback. Our solution has been to pick at random 500 of them – the good the bad and the ugly – and publish them. If anyone has any doubt as to the fact that Serco colleagues are a feisty, fearless and passionate lot who care deeply about their work delivering public services and about Serco, we need look no further than those comments.

Chief Executive's Review continued

Three other data points are worth mentioning as regards people: in 2019, we estimate that over 500,000 people applied to work for Serco, so it appears that our ambition to make Serco an employer of choice seems to be working. And in the last three years, from a senior management cohort of around 350, the rate of annual voluntary turnover has been around 3%. Finally, in 2019, we launched our first graduate recruitment scheme in the UK; bearing in mind that Serco's reputation, particularly in the UK, was so badly damaged a few years ago, it was gratifying to see that around 1,000 graduates applied, over 400 sat the aptitude tests, 45 attended a selection day, and we hired 14.

We continue to make significant investment in training. At a Group Level, we have continued to run our highly successful Serco Senior Management Programme. This course, exclusive to Serco, and designed and delivered by us and Saïd Business School, Oxford, has been an outstanding success, and so far some 11 courses, embracing 330 senior managers, have been run. In 2019, we added a specific Contract Managers' course, which also runs at Oxford. Within the businesses, Operational Excellence practices continue to be embedded across the business, with 2 Master Black Belts, 9 Black Belts and 154 Green Belts now supporting the 3,471 Yellow Belts that have been trained over the last four years. And in addition, our Divisional Chief Executives are encouraged to develop their own regional courses, and we have a plethora of different local courses available to management.

Systems and processes

However well trained the people, they need the tools to do the job, and these are in part processes, and in part systems. Significant progress has been achieved on our core IT systems; in 2018, we migrated our SAP system into the cloud, thereby avoiding the multi-million pound investment we would have had to have made in upgrading our IBM servers, and allowing us to vacate our largest server farm. In 2019, we followed this up by upgrading our SAP versions from the heavily customised 2009 release to the latest version. Few companies can claim to have their core ERP system both cloud-based and on current release. We also did extensive and complex work migrating a large number of specialist applications to the cloud, which has allowed us to close the second of our two large server centres in the UK in December. We will also be upgrading our core US ERP system to latest version in 2020.

Many contracts are supported by IT systems we have developed. In the US, we have used sophisticated Robotic Process Automation and Artificial Intelligence tools to transform the speed and efficiency of key processes on our CMS contract, which has allowed us to handle large variations in volumes of work without hiring and firing people. In the UK, using the latest workflow tools we have completely re-written the systems used to manage the AASC and PECS contracts. Similarly, in Australia, we have created a highly efficient set of systems which have allowed us to recruit and manage over 1,000 healthcare professionals to serve the Australian Defence Force; we have also developed and launched a combined online and call centre application which allows citizens to report non-urgent issues to the Victoria Police. So far, we have taken over 500,000 calls to this service.

A key priority for the Company is to improve the productivity and efficiency of our workforce, and to streamline processes such as payroll and absence management. Whilst this sounds straightforward, in a company employing over 50,000 people, many on terms and conditions inherited from previous employers, it has proved to be a major task, on which we have so far spent not far short of £10m. However, we are now rolling out workforce management systems, and have around 13,000 users on various levels of system, ranging from simple clock-in-clock-out time management, to full rostering, absence management and workforce planning.

In the critical area of cyber security we continue to invest, and regularly achieve the accreditations and standards demanded by our various government clients of their contractors. Our hopes that we would be able to reduce our IT costs as we shed old server farms and systems have been largely set to nought by the inexorable increase in investment we need to make on protecting our IT systems and data from those who would do us and our customers harm.

A major challenge for the IT team was the integration of around 1,000 NSBU employees onto our systems. Both Serco North America and NSBU work on highly classified contracts, and managing the task of migration whilst maintaining the appropriate security was complex. Rather than try and merge the two environments, we have given all NSBU employees new laptops which meet our security requirements and "lifted and shifted" all the NSBU data onto our proven Serco secure network.

The basic operational transformation of Serco is now largely complete in terms of HR, IT, Procurement and Finance. But much work still remains to bring systems and processes from "acceptable" up to "best-in-class" in our industry, and we intend to continue to invest, with the priority in 2020 being the creation of a new front-end to our HR systems outside North America ("Project Goldfinch") and beginning to use the analytics available in our workforce management systems to improve efficiency and productivity and create sustainable competitive advantage. A business which employs over 50,000 people, receives over 500,000 job applications and recruits over 15,000 new hires a year has the scale to be efficient.

Innovation does not only come from IT. The new Clarence prison in New South Wales, which opens in mid-2020, is a minor miracle of innovation and stands in sharp contrast to prisons built 20 years ago, let alone 100 years ago. Advances in materials – specifically strengthened glass, have allowed us to create a prison where there is barely a steel bar to be seen. Cells are airy and light, with large windows, likewise visiting areas; prisoners will have their own tablets which allow them to communicate with family, read books and watch films. And yet security is world class. Our new Caledonian Sleeper trains, running between Scotland and London, have replaced notoriously shabby 40-year old rolling stock, and have double beds and ensuite showers and toilets. Our Northlink ferries have introduced disabled changing and toilet facilities that transform the experience of disabled people who travel between the mainland and the Northern Isles. In Australia, we have developed an "e-order" mobile trolley system for ordering and tracking clinical pathology tests in Fiona Stanley Hospital, which other hospitals are considering adopting.

The Serco Institute

In 2019, we relaunched Serco Institute. Originally active in the early days of outsourcing as a way to encourage thinking and research about the delivery of government services, it had a reputation for providing interesting and challenging articles for those interested in public service delivery. After 2011 it was left to wither, and has been dormant for several years.

However, at a time when the idea that private companies can deliver public services is being widely questioned, when citizens' expectations of public services continue to increase and evolve, and where over-aggressive risk-transfer has led in the UK to huge damage to the UK Government's supply chain, we feel that there is need for a forum in which ideas about the delivery of public services can be expressed.

We have brought together people to discuss ways of capturing social value in government contracts; we have commissioned independent research from Capital Economics on the economics of outsourcing, as well as work in conjunction with Kings College on the Whole Force approach for the British military; we have commissioned research on why rates of violence are so much lower in Australian prisons than UK prisons. The Serco Institute works to help governments understand what works in service delivery; what sets it apart from other think tanks is the international dimension, access to colleagues' deep operational expertise, and the live public service environment we have to conduct studies and run trials.

It is early days, but we believe that the Serco Institute can make a meaningful contribution to understanding what works, and why, in policy delivery, and disseminating knowledge of innovations in public services.

Acquisitions

Acquisitions can have an important role in sustainable value creation by bringing new capabilities and skills to our customers, enhancing returns for our shareholders and improving opportunities for the employees and business partners of Serco. Generally speaking, we regard acquisitions as higher risk than organic growth, so any candidates have to meet our stringent criteria of being both strategically and financially compelling. In 2019 we undertook a major acquisition (described below) in the form of NSBU, having made two much smaller 'bolt on' acquisitions of BTP Systems and the Carillion health facilities management contracts in 2018.

In May 2019, Serco announced that it had entered into a definitive Asset Purchase Agreement to acquire for \$225m the Naval Systems Business Unit and a small number of related contracting entities (collectively, 'NSBU'), from Alion Science & Technology Corporation. NSBU is a leading provider of naval design, systems engineering, as well as production and lifecycle support services to the US Navy, US Army and Royal Canadian Navy. In the 12 months to September 2018 NSBU had revenues of \$336m, which compares with Serco's North American Defence revenues in 2018 of \$453m.

The acquisition marked an important step for Serco, materially adding to the scale and capability of our US defence business, and in particular to the maritime support segment. Prior to the acquisition, Serco employed some 6,000 people in North America, of whom 2,300 worked in defence, and Serco has been providing services to the US Navy for nearly 30 years.

NSBU, which employs around 1,000 people, has brought world-class ship and submarine design, systems, and engineering services, production support and in-service sustainment capabilities, which are highly complementary to Serco's existing skills in ship modernisation, hardware integration and naval logistics.

As well as broadening capabilities, the acquisition increases significantly the scale of our international Defence businesses. Serco Group's revenue mix from Defence has increased from 30% in 2018 to around 35% of 2019 revenues on a pro forma basis, which is equivalent to approximately \$1.7bn (£1.3bn), while the Americas Division as a proportion of the Group has increased from 20% in 2018 to around 29% on a pro forma basis, equivalent to approximately \$1.4bn (£1.1bn).

The combined business is a top tier supplier of services to the US Navy, and increases our exposure to US Navy fleet expansion, which is one of the fastest-growing areas of public procurement. The US Navy has announced plans to increase the fleet from 280 to 355 ships by 2034, and we see a long-term and growing demand for the capabilities that the combination of Serco and NSBU will be able to provide.

The acquisition was financed through a combination of a new £45m debt facility together with an Equity Placing for cash of 10% of existing share capital that raised gross proceeds of around £140m on the day that the transaction was announced. As stated at the time of the acquisition, in 2020, NSBU is expected to contribute revenue of approximately \$370m (£285m), EBITDA of \$28m (£21m) and Underlying Trading Profit of \$27m (£20m), resulting in transaction multiples of 0.6x, 8.1x and 8.3x, respectively. This includes the benefit of sharing Serco's fixed overheads across a wider revenue base in North America, which we expect to be worth \$3-4m of UTP in the first year.

Serco received all necessary regulatory approvals, including customary Hart-Scott-Rodino ('HSR') and Committee on Foreign Investments into the United States ('CFIUS'), and completed the transaction at the start of August 2019. The integration has progressed well and the business has traded to plan. This has included good progress on contract awards such as the \$162m contract to continue the support to the US Navy's Amphibious Warfare Program Office (PMS 377) and the \$43m five-year contract to deliver design and engineering services for the US Navy's next generation of unmanned and small surface combatant vessels.

The businesses acquired in 2018 have also performed well in 2019, their first full year under Serco ownership. BTP Systems deepens the Group's satellite and radar capabilities, and it too has achieved good progress on contract awards such as successfully rebidding and expanding its largest operation with the \$49m five-year contract for system engineering technical services on the Submarine High Data Rate (SubHDR) program. The acquisition of the six Carillion health facilities management contracts added significant scale to our UK health business, and has contributed to improved profit performance of the UK business in 2019.

Chief Executive's Review continued

Electronic Monitoring investigations

In 2013, the UK Serious Fraud Office (SFO) opened an investigation following allegations of overcharging on our Electronic Monitoring (EM) contracts for the UK Ministry of Justice (MoJ). The investigations related to these allegations were finally concluded with the announcement on 3 July 2019 that one of Serco's UK subsidiaries, Serco Geografix Ltd (SGL), had reached an agreement to a Deferred Prosecution Agreement (DPA); the agreement received final judicial approval the following day. The DPA related to three offences of fraud and two of false accounting committed between 2010 and 2013 associated with the reporting to the UK Ministry of Justice (MoJ) of the levels of profitability of Serco's EM contract. Investigations into allegations of wrongful billing which were the subject – understandably – of significant public and Parliamentary ire in 2013 were concluded without any criminal charges against Serco. An investigation by the Financial Reporting Council into misconduct by the Group's auditors at the time concluded with sanctions and penalties imposed against Deloitte and two of its audit engagement partners. Nothing in these matters impacts the previously reported statutory accounts of Serco Group.

The DPA concludes the SFO's investigation into Serco companies. As noted in the summary of financial performance above, and in note 10 to the financial statements on page 193 regarding exceptional items, a £22.9m charge was taken to reflect the payment of the £19.2m fine together with £3.7m related to the SFO's investigation costs. The fine reflected a discount of 50% as a result of Serco's self-reporting and significant and substantial cooperation with the investigation. The SFO determined that no further damages or disgorgement of profit was payable to the MoJ because Serco had already fully compensated the Department in December 2013.

As noted in the announcements made in July, the SFO recognised the significant steps Serco has taken to reform itself, including the thorough implementation under independent supervision of a comprehensive Corporate Renewal Programme approved by the UK Government. This programme included over 80 actions and initiatives, and included rewriting our system of management control, as well as strengthening our bidding, contract management, internal audit and management assurance processes. Nobody who sat on the Board of Serco Group, or who was part of the Executive Management Team at the time these offences were committed, works for Serco today.

Whilst all financial liability is considered to now have been extinguished following the SFO's long and very detailed investigation into Serco companies, as well as the internal and customer-led investigations and reviews which preceded and ran in parallel with the SFO, Serco has subsequently received a claim seeking damages for alleged losses following the reduction in Serco's share price in 2013. This claim will be energetically and robustly resisted. As referred to in our contingent liabilities note on page 208, the merit, likely outcome and potential impact on the Group of any such claim is subject to a number of significant uncertainties.

Market outlook

Our approach to strategy planning is to conduct annual planning exercises, updating five-year forward plans, using internal resources. Every 4-5 years we conduct a root-and-branch review, with external help, of our markets. The last such review was in 2018, and in our 2018 results announcement, we set out our views on our markets. Other than a new and much stronger Government in the UK, and certainty that the UK will leave the EU, nothing has happened to change our previous assessment. In summary:

- We still believe that the Four Forces (relentlessly increasing demand for public services; expectations of higher service quality; structural fiscal deficits; electoral resistance to tax increases) will continue to encourage governments to seek innovative ways to deliver more services, of higher quality, and at lower cost (what we call 'More and Better for Less').
- In 2018 we estimated that the weighted average rate of growth across all our geographies and sectors was running at 2-3%, which was lower than the 5%+ seen several years earlier and which we think the market could revert to in the longer term; the reduction was in large part because of the conditions in the UK, which represents around 40% of our revenues. A year passing has not changed our view on market growth.
- The UK Government has been commissioning very little which is new in the world of public service outsourcing, as it deals with other priorities such as Brexit. New contracts have tended to be rebids of existing work, and whilst this may have increased Government spend, this will be because previous contracts were loss-making and on re-bid the Government is having to spend more; this represents an adjustment to the market value, not volume growth. Examples of such "value resets" would be the AASC and PECS tenders, which Serco won at increased value compared to the previous generation of contracts following years of losses. There have been some new opportunities in UK Central Government – notably new MOD programmes around training and fire services, the new prisons build programme and electronic monitoring for immigration applications – but they have been few and far between.
- In terms of life post-Brexit, the determination of the UK Government to "take back control" from the EU and to have its own standards and regulation is in effect insourcing regulation on a national scale. The UK will have to invest in rebuilding the regulatory capability that for the last 40 years has been outsourced to the EU. Supporting Government in this work may produce opportunities for companies like Serco in the longer term. The Government is also determined to simplify procurement regulations, which may make bidding a little less expensive and long-winded, and the new Playbook for outsourcing is a genuine attempt by Government to procure services contracts in a more effective and balanced way. Our direct exposure to Brexit is small as Serco neither exports nor imports to any significant degree; our business in continental Europe is conducted through long-established local subsidiaries, and we employ relatively few continental European citizens in the UK.

- Elsewhere, US defence spending, and particularly Navy procurement, is very robust, and the Department of Defense is busy trying to work out how they will fulfil the requirement, mandated by Congress with bi-partisan support, to increase the Navy from around 280 ships to 355. The startling increase in the valuations accorded to our quoted peers in the US in the last 12 months suggests that there is confidence that demand will remain strong; our view is that the rate of growth in US defence spending will likely slow, but that there is plenty of work to bid for, and the main constraint for us is availability of labour. If finding welders in the US is difficult at a time of 3.5% unemployment, finding welders with the security clearances required to work on sensitive defence contracts is doubly so.
- Australia remains a diverse market in that different states elect governments who have sharply different views about the private provision of public services. But overall, the competition amongst different administrations in the Commonwealth to provide improved services provides a healthy back-drop to the market, and the Federal Government remains a major purchaser of public services in defence and immigration.
- We are continuing to search for opportunities to grow our position in Europe; we have energetic and effective management who have won us our first European defence contracts, and we are hopeful we can grow our position.
- In Serco Middle East, we also have new management who are bringing new dynamism and ambition to the business. We have just signed a large and significant new contract with Dubai airport; our contract in Saudi Arabia with the Government to provide a framework and processes and procedures for asset and facility management across the whole of Government is of great significance to our position in that market. Whilst the Middle East will always be a volatile and difficult market, we believe that it will continue to grow.
- Although we have not yet seen any material impact on our business, we are closely monitoring the developing situation relating to the Coronavirus (COVID-19). As a major employer and provider of essential frontline services, the health and safety of our colleagues and service users is paramount, and supporting our government customers, frequently in very challenging situations, is at the heart of what Serco does. There is limited necessity for travel of our employees, and, given the nature of our services, we consider any supply chain risk to be small at the current time. We will continue to evaluate this situation and provide any update to our stakeholders at the appropriate time.

Guidance for 2020

At our Closed Period trading update on 12 December 2019, we provided our initial outlook for 2020 and remarked that we anticipated continued progress and further strong growth in line with analyst consensus expectations, taking into account the previously announced PECS transition costs and recent currency movements at that time. No element of guidance has changed since that date, except for more recent currency rates and to take into account the impact of the resumption of dividend payments to Serco's shareholders announced with our 2019 results.

Revenue in 2020 is expected to be £3.4-3.5bn, which would represent total growth of 6-8%. This assumes organic growth of around 4%. Within this, the performance of the Americas Division is more susceptible to the volumes of task order work, such as in our Ship & Shore modernisation operations and the FEMA contract, which have been particularly strong in 2019, and this creates a tough comparative for 2020. The acquisition of NSBU is expected to add to revenue growth by about 5-6%, representing the seven months through to the anniversary of completion of the transaction in August. If recent currency rates were to prevail throughout 2020, there would be a currency headwind across the Group of estimated at £80-90m or 2-3% of revenues.

Underlying Trading Profit is expected to be around £145m, which would represent growth of about 20%, and includes an assumed currency headwind of approximately £5m. 2020 will benefit from the full-year contribution of the AASC and AHSC contracts, as well as the annualisation of the NSBU acquisition. The transition of the recently awarded PECS contract is expected to cost around £4m in 2020, as set out in our announcement of 30 October, and, as previously indicated, we expect a significant reduction in contribution from the US CMS contract.

Net Finance Costs, as previously indicated, are expected to increase by approximately £5m, which includes the full-year impact of new property leases related to the AASC contract. The underlying effective tax rate is expected to continue at around 25%, which reflects the higher proportion of our pre-tax profits now coming from our international operations, particularly the US. The weighted average number of shares for diluted EPS purposes, fully annualising for the Equity Placing conducted in May 2019, is expected to be approximately 1,250m.

A broadly similar level of Free Cash Flow is anticipated in 2020, and closing Adjusted Net Debt is expected to reduce to approximately £200m, resulting in leverage towards the lower end of our normal target range of 1-2x; this guidance now includes an assumed outflow of around £20m to take account of the assumption for the resumption of dividend payments if approved by Serco's shareholders as described above.

Our outlook for 2020 is based upon recent currency rates. The rates used, along with their estimated impact on revenue and UTP, are shown in the table on page 24.

Serco gives unusually detailed forward guidance across a large number of key metrics, giving numbers rather than opaque words, so that investors and other stakeholders have a clear idea of what we think will happen at a given point of time. The disadvantage of this approach is that it is almost inevitable that events will prove us wrong on one or more metrics. We believe however that transparency and clarity is helpful, albeit that, as we always point out, our profits can be affected by small percentage changes in revenues and costs, as well as currency rates.

Chief Executive's Review continued

Summary and concluding thoughts

If 2018 marked an inflection point, where we moved into growth after five years of declining trading profit, 2019 can perhaps be described as the year we achieved escape velocity, being the point at which we were able to leave behind the gravitational drag of previous missteps, and become a "normal" company again. By "normal", we mean a company with growing revenues, profits and cash flows; producing good returns on capital; winning profitable business; executing well; valued by its customers; being a place people want to work; and a company which has enough confidence in its future to pay shareholder dividends. From fighting for survival, we can now spend more time plotting how to find new sources of growth; new ways to build sustainable competitive advantage; new ways to deliver public services. We also perhaps have a bit more space to think about how to adapt to a world where a company's approach to Environmental, Social and Governance (ESG) issues has become so much more important to many stakeholders than they were even twelve months ago.

Our position on ESG issues has, for many years, been a strong one, and is at the very heart of what we do: Serco has a clear social Purpose – "to be a trusted partner of governments, delivering superb public services, that transform outcomes and make a positive difference for our fellow citizens". Our Values of Trust, Pride, Innovation and Care are embedded deeply in our culture. We have a good track record of delivering high quality services to often vulnerable individuals on behalf of governments. We have strong governance and invest heavily in it as well as in the skills of our people. For the last five years, we have worked hard to make Serco a business which is both profitable and sustainable.

Notwithstanding this strong position, the fact is that some of the work governments are expected to do is controversial, and doubly so when they ask private companies to carry this work out on their behalf. Be it running prisons, or supporting immigration policy, or helping to deliver strategic nuclear deterrence the work we do is seen by some as wrong, either because people object in principle to private companies delivering public services, or because people object to the nature of the work government asks us to do. Furthermore, as a provider of public services, and paid for by taxpayers' money, we are regularly (and rightly) challenged to justify either the quality of service we deliver and / or the value for money we provide to the taxpayer.

In short, what we see as a strong Purpose – delivering social value by supporting governments in providing essential services to protect and support their citizens – others see as its antithesis. This presents a complex and confusing picture to investors and ESG analysts who are having to consider these matters ever more carefully, and part of our job is to help them make informed judgements. It is our responsibility to ensure that Serco continues to behave in a sensible, thoughtful, transparent and responsible way towards all its stakeholders, whilst making a positive difference to the lives of people who access or pay for public services.

Returning to the operational management of the business, one of the lessons of the last five years is that providing services to governments is not easy. By their nature, margins in the sector are slim, and risks are high; the relationship between risk and reward is asymmetrical. Being successful

requires constant diligence, strong execution, an understanding that no deal is better than a bad deal, and a willingness to say no. On the other hand, unlike many other sectors, we can wake up each morning without the fear that our customers may not be able to pay their bills, or that demand for our services might evaporate, or that our services might be disintermediated by a start-up. And running these businesses does not require large amounts of capital, so slim margins can still deliver attractive returns.

The election of a Government in the UK – our largest market – with a large majority and a determination to deliver renewal, re-order and change is a good thing for our market as the more governments want to do, and the more they care about value for money, the more they need a strong private sector to help them. The UK Government will need to resolve how it wants to finance new infrastructure and other initiatives (PFI being, unjustly in our view, the scoundrel du jour) and how to balance expenditure on new assets with maintaining existing assets. In the NHS alone, there is a backlog of £6.5bn on maintenance, as funds are diverted from capital and maintenance budgets to day-to-day service delivery. But those who provide public services, be they civil servants or suppliers, tend to thrive when governments know what they want and have the determination to get it.

2020 will be a busy year for Serco: there are some very large contracts such as PECS, Clarence Correctional Centre and Dubai Airport Services which need to be transitioned; we will also be handing over the world's most advanced icebreaker vessel to the Australian Government. We need to rebuild our pipeline, denuded (the right way) by three years of strong order intake. And we need to continue to invest in making our internal systems and processes sing for their supper.

And we intend to stick with the strategy we developed in 2014, and which has so far served us well:

What we do: we are an international business providing people-enabled services, supported by best-in-class systems and processes, to governments.

How we do it: we use a management framework, as set out below.

Our Values: Trust, Care, Innovation, Pride


Our Purpose: to be a trusted partner of governments, delivering superb public services, that transform outcomes and make a positive difference for our fellow citizens.

Our Organising Principles: loose-tight, disciplined entrepreneurialism

Our Method: being the best-managed business in the sector.

Our Deliverables: high and rising employee engagement, margins of ~5%, growing revenues at ~5%.

We intend to continue working hard to deliver this strategy.



Rupert Soames
Group Chief Executive
Serco – and proud of it.
25 February 2020

Divisional Reviews

Serco's operations are reported as four regional Divisions: UK & Europe (UK&E); the Americas; the Asia Pacific region (AsPac); and the Middle East. Reflecting statutory reporting requirements, Serco's share of revenue from its joint ventures and associates is not included in revenue, while Serco's share of joint ventures and associates' profit after interest and tax is included in Underlying Trading Profit (UTP). As previously disclosed and for consistency with guidance, Serco's Underlying Trading Profit measure excludes Contract & Balance Sheet Review adjustments (principally OCP releases or charges).

Year ended 31 December 2019	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate costs £m	Total £m
Revenue	1,361.7	915.7	621.4	349.6	–	3,248.4
Change	+5%	+42%	+13%	+2%		+15%
Change at constant currency	+5%	+35%	+16%	(2%)		+13%
Organic change at constant currency	+2%	+19%	+16%	(2%)		+8%
UTP excluding the effect of IFRS16 adoption	40.6	79.2	31.1	13.6	(45.5)	119.0
Change	+4%	+73%	+16%	(37%)	+13%	+28%
Change at constant currency	+4%	+64%	+19%	(39%)	+13%	+24%
Margin excluding the effect of IFRS16	3.0%	8.6%	5.0%	3.9%	n/a	3.7%
Change	0bps	+150bps	+10bps	(240bps)		+40bps
Effect of IFRS16 adoption on UTP	(2.2)	2.9	0.2	0.3	–	1.2
UTP	38.4	82.1	31.3	13.9	(45.5)	120.2
Margin	2.8%	9.0%	5.0%	4.0%	n/a	3.7%
Contract & Balance Sheet Review adjustments	0.3	9.5	–	–	(6.2)	3.6
Other one-time items – DFRP settlement	9.6	–	–	–	–	9.6
Trading Profit/(Loss)	48.3	91.6	31.3	13.9	(51.7)	133.4
Amortisation of intangibles arising on acquisition	(1.2)	(6.2)	(0.1)	–	–	(7.5)
Operating profit/(loss) before exceptionals	47.1	85.4	31.2	13.9	(51.7)	125.9

Year ended 31 December 2018	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate costs £m	Total £m
Revenue	1,300.7	645.6	548.2	342.3	–	2,836.8
UTP	39.2	45.7	26.8	21.5	(40.1)	93.1
Margin	3.0%	7.1%	4.9%	6.3%	n/a	3.3%
Contract & Balance Sheet Review adjustments	12.4	(2.5)	13.7	–	–	23.6
Trading Profit/(Loss)	51.6	43.2	40.5	21.5	(40.1)	116.7
Amortisation of intangibles arising on acquisition	(0.5)	(3.2)	(0.6)	–	–	(4.3)
Operating profit/(loss) before exceptionals	51.1	40.0	39.9	21.5	(40.1)	112.4

The trading performance and outlook for each Division are described on the following pages. Reconciliations and further detail of financial performance are included in the Finance Review on pages 42 to 59. This includes full definitions and explanations of the purpose of each non-IFRS Alternative Performance Measure (APM) used by the Group. The consolidated financial statements and accompanying notes are on pages 167 to 227. Included in the accompanying notes are the Group's policies on recognising revenue across the various revenue streams associated with the diverse range of goods and services discussed within the Divisional Reviews. The various revenue recognition policies are applied to each individual circumstance as relevant, taking into account the nature of the Group's obligations under the contract with the customer and the method of delivering value to the customer in line with the terms of the contract.

Divisional Reviews continued



UK & Europe

Sectors we operate in:

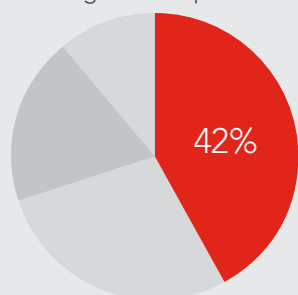
- Defence
- Health
- Justice & Immigration
- Citizen Services
- Transport

Revenue

£1,361.7m

2018: £1,300.7m

Percentage of Group revenue

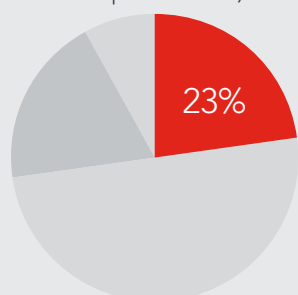


Underlying Trading Profit (UTP)

£38.4m

2018: £39.2m

Percentage of Group UTP (before Corporate costs)



Serco's UK & Europe Division supports public service delivery across all five of the Group's chosen sectors: our Justice & Immigration business provides a wide range of services to support the safeguarding of society, the reduction of reoffending, and the effective management of the UK's immigration system, and includes prison management as well as the provision of housing and welfare services for asylum seekers; in Defence, we are trusted to deliver critical support services and operate highly sensitive facilities of national strategic importance; we operate complex public Transport systems and services; our Health business provides primarily non-clinical support services to hospitals; and our Citizen Services business provides environmental and leisure services, as well as a wide range of other front, middle and back-office services to support public sector customers in the UK and international organisations across Europe, including the European Patent Organisation and the European Space Agency. On a Reported Revenue basis, Serco's operations in the UK represent approximately 39% of the Group's reported revenue, and those across the rest of Europe approximately 3%.

Revenue for 2019 was £1,361.7m (2018: £1,300.7m), an increase of 4.7%. Reported Revenue excludes that from our joint venture and associate holdings which largely comprise the operations of AWE, Merseyrail and Viapath. At constant currency, the growth in Revenue was also 4.7%, or £62m. The net contribution to revenue from the acquisition of the Carillion health facilities management contracts that transferred to Serco between June and August 2018 was £32m, therefore the organic growth was £30m or 2.4%. Within the organic growth, the largest contributor was from the expanded operations of Asylum Accommodation and Support Services Contracts (AASC) which replaced the previous COMPASS contracts in the second half of the year. Other examples of contracts with growth included those for the Skills Support for the Workforce (SSW) Programme and services to the Department for Work & Pensions (DWP), and the start of our new contract for environmental services for Hart District Council and Basingstoke & Deane Borough Council; there was partial offset to this growth from the early exits of the previously onerous contracts for East Kent Hospitals University NHS Foundation Trust and for the Anglia Support Partnership, and lower revenue in our European operations.

Underlying Trading Profit (UTP), excluding the effect of IFRS16 adoption, was £40.6m (2018: £39.2m), representing an implied margin of 3.0% (2018: 3.0%) and growth of 4% at constant currency. Trading Profit includes the profit contribution (from which interest and tax have already been deducted) of joint ventures and associates; if the £395m (2018: £374m) proportional share of revenue from joint ventures and associates was also included and if the £6.4m (2018: £5.7m) share of interest and tax cost was excluded, the overall Divisional margin would have been 2.7% (2018: 2.7%). The joint venture and associate profit contribution was modestly lower at £27.3m (2018: £28.1m), largely as a result of the start of a new three-year pricing period at AWE. On the AASC contracts, the transition costs that were expensed as they were incurred largely in the first half of the year were more than offset with the move to profitability in the second half. There was also improved profit performance in the healthcare business, driven by the Carillion acquisition.

Within UTP there was a reduced rate of OCP utilisation (excluding IFRS16-related accelerated utilisation) of £33m (2018: £47m), which served to offset the Division's loss-making operations, principally the Caledonian Sleeper, COMPASS and Prisoner Escort & Custody Services (PECS) contracts. Excluded from UTP is £9.6m of the commercial settlement received from the Ministry of Defence (MOD) in relation to the Defence Fire and Rescue Project tender, together with Contract & Balance Sheet Review and other one-time items that resulted in a £0.3m net credit (2018: £12.4m net credit) to Trading Profit. Together with the adverse net effect of IFRS16 implementation of £2.2m (2018: n/a), this resulted in Trading Profit of £48.3m (2018: £51.6m).

The UK & Europe Division's order intake was more than £3bn, or over 50% of that for the whole Group. By far the largest element of this was the estimated £1.9bn ten-year value for the AASC contracts. As previously set out, these are very significant for the Division, and indeed for the Group. AASC supersedes the prior COMPASS contracts which incurred losses (offset in the P&L by the utilisation of the OCP) of around £15-20m on average per year for the past five years. Under the new AASC contracts, we did not retain the Scotland & Northern Ireland region, but gained the much larger Midlands & East of England region, whilst retaining our other previous COMPASS region of the North West; as a consequence, we are now the largest

provider of asylum seeker accommodation in the UK. Given our past experience, we also bid the regions at prices which we believe should allow us to make a fair return.

The second largest contract award in the year was with the UK Ministry of Justice (MoJ) for PECS, estimated at approximately £800m over the ten-year term which starts on 29 August 2020. Similar to COMPASS/AASC, this is a successful rebid of a contract previously incurring losses that were being offset by an OCP, and also similar to AASC is that Serco was selected to provide these sensitive and demanding services over a significantly increased geographical area. Other contract awards included: significantly expanding on rebid our operations for the SSW programme which provides training and related employment services to Local Enterprise Partnership areas; a new environmental services contract with the Royal Borough of Windsor and Maidenhead, together with extensions for our services to numerous other similar contracts; we have also extended during the year contracts such as for defence support services to the UK MOD and the US Air Forces in Europe (USAFE), contact centre operations for Companies House and our operations at the European Organisation for Nuclear Research (CERN).

We have not included within our order intake the contract to continue operating the Northern Isles Ferry Services, which was announced by the customer in September 2019 and has an estimated total contract value of £450m, as we have not yet signed the contract due to a procurement challenge by the unsuccessful bidder. In early February 2020, the Scottish Government announced that all challenges had been resolved, and that they would be proceeding to sign the contract with Serco in the coming months.

Of existing work where an extension or rebid will be required at some point before the end of 2022, there are around 25 contracts with annual revenue of over £5m within the UK & Europe Division; in aggregate, these represent approximately 25% of the current level of annual revenue for the Division; this excludes the Northern Isles operations, which would represent a further 5%. The largest to further secure in 2021 include our strategic partnership contract supporting Hertfordshire County Council, and in 2022 our UK Navy fleet support contract known as Future Provision of Marine Services (FPMS) and our UK MOD Skynet satellite support operations.

The rebid profile and the new bid Pipeline both reduced with the successful outcome of our bidding for AASC. Opportunities in the new bid Pipeline at the end of 2019 include several defence support opportunities, together with other tenders such as the first of the new build prison manage and operate contracts (HMP Wellingborough), in immigration services and in environmental and other Citizen Services support services. On 20 February 2020, Serco announced that we had signed a new contract to manage the Gatwick Immigration Centres valued at approximately £200m. Following a string of important contract wins, replenishing the UK & Europe pipeline across each of our five sectors of operation remains a key focus of the business in 2020.

Divisional Reviews continued



Americas

Sectors we operate in:

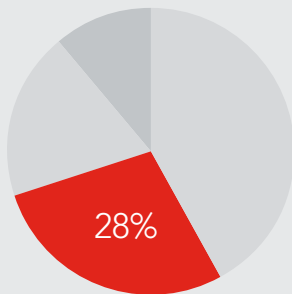
- Defence
- Transport
- Citizen Services

Revenue

£915.7m

2018: £645.6m

Percentage of Group revenue

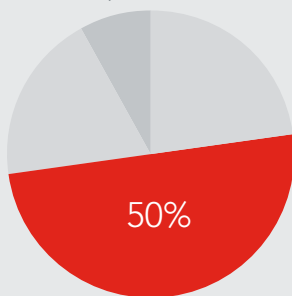


Underlying Trading Profit (UTP)

£82.1m

2018: £45.7m

Percentage of Group UTP (before Corporate costs)



Our Americas Division accounts for 28% of Serco's reported revenue, and provides professional, technology and management services focused on Defence, Transport, and Citizen Services. The US Federal Government, including the military, civilian agencies and the national intelligence community, are our largest customers. We also provide services to the Canadian Government and to some US state and municipal governments.

Revenue for 2019 was £915.7m (2018: £645.6m), an increase of 42% in reported currency. In US dollars, the main currency for operations of the Division, revenue for the year was equivalent to approximately US\$1,172m (2018: US\$860m). The strengthening of local currency against Sterling increased revenue by £43m or 7%; as the Naval Systems Business Unit (NSBU) acquisition completed at the start of August 2019, it contributed five months of revenue which drove the Divisional growth from acquisitions of 16%; the organic change at constant currency was therefore growth of 19%, or £119m. A key driver of this was a significant increase in task order volumes and related procurement services for our Ship & Shore modernisation and hardware work for the US Navy, with particularly strong demand and new task order wins under the Consolidated Afloat Networks Enterprise Services (CANES) Indefinite Delivery / Indefinite Quantity (ID/IQ) multiple-award contract for various naval vessel classes. There was also increased task orders on the US Federal Emergency Management Agency (FEMA) contract framework, as well as growth from new contract awards started in the year such as support services to the US Pension Benefit Guaranty Corporation (PBGC) and deploying IT solutions for the US Air Force.

Underlying Trading Profit, excluding the effect of IFRS16 adoption, was £79.2m (2018: £45.7m), representing a margin of 8.6% (2018: 7.1%) and growth of 73%; excluding the favourable currency movement of £4.3m, growth at constant currency was 64%. Whilst revenue was broadly flat on our health insurance eligibility support contract for the Center for Medicare & Medicaid Services (CMS), profitability benefited from an unusually high volume of fixed priced variable work, particularly in the first half of the year; as previously described, we do not expect margins to recur at these levels in the future, and profits on this contract are

expected to be noticeably lower in 2020. The increase in profits also included the £8.6m contribution from the NSBU acquisition, as well as the benefit from the growth in short-term volume related work on various frameworks and new contracts started in the year.

Within Underlying Trading Profit there was £4m of OCP utilisation required to offset the previously loss-making Ontario Driver Examination Services (DES) contract (2018: n/a); an OCP is no longer required on this contract. Contract & Balance Sheet Review adjustments resulted in a £9.5m net credit (2018: £2.5m net charge) to Trading Profit which, together with the beneficial effect of IFRS16 implementation of £2.9m (2018: n/a), increased to £91.6m (2018: £43.2m).

Americas represented around £1.1bn (\$1.4bn) or 20% of the Group's order intake. The largest award for new work was that for field office services to the US PBGC with a first task order valued at \$112m over five years and a total potential value of \$200m. Other new contracts included career training and counselling services to transitioning military service members valued at \$95m over five years, and a five-and-a-half year task order valued at \$82m was awarded by the US Air Force to enhance NexGen IT solutions for US Air Force Civil Engineering, which includes deploying TRIRIGA, an integrated workplace management system owned by IBM. Across our Ship & Shore modernisation and hardware services, including the CANES, Naval Electronic Surveillance Systems (NESS) the Global Installation Contract (GIC) ID/IQ frameworks, the cumulative value of IT, engineering, maintenance and sustainment support task orders totalled over \$250m. Serco also received 15 task orders for our Public Assistance Technical Assistance Contract for the Federal Emergency Management Agency (FEMA) totalling over \$100m.

Within awards that were rebid or extended were those for our support to the Federal Retirement Thrift Investment Board (FRTIB), motorist assistance patrol operations in Louisiana and for our support to psychological health outreach services to the US Navy. Serco also resecured places on the ID/IQ frameworks for both ship and shore-based C4ISR systems modernisation services over the next ten years that replace the previous GIC frameworks. Serco also secured a place on a similar ID/IQ framework but

which it was not previously on the predecessor contract; this covers C4I Testing, Integration and Installation (CTII) services for the Carrier and Air Integration Program Office (PMW 750).

The progress on contract awards of the businesses recently acquired have also been pleasing. These include for NSBU the \$162m contract to continue the support to the US Navy's Amphibious Warfare Program Office (PMS 377) and the \$43m five-year contract to deliver design and engineering services for the US Navy's next generation of unmanned and small surface combatant vessels; and for BTP, a \$49m five-year contract for system engineering technical services on the Submarine High Data Rate (SubHDR) program.

Of existing work where an extension or rebid will be required at some point before the end of 2022, there are around 25 contracts with annual revenue of over £5m within the Americas Division; in aggregate, these represent around 40% of the current level of annual revenue for the Division. Those coming up for rebid or extension in 2020 include the Federal Aviation Administration's (FAA) Contract Tower (FCT) Program; in 2021, the Anti-Terrorism/Force Protection (ATFP) framework contract for the US Naval Facilities Command and our support to support services at the 5 Wing Canadian Forces Base in Goose Bay; and in 2022, resecuring a position on the successor framework for CANES. Of the NSBU business, it has a number of contract option periods, extensions or rebids to secure, including in 2020 its support to the US Navy Surface Warfare Directorate and in 2021 to the Shipbuilding Command for surface ships.

Our Pipeline of major new bid opportunities due for decision within the next 24 months includes a broad spread of defence support functions, including those added with the NSBU acquisition, as well as others such as air traffic control support within our Transport business. Our Citizen Services business unit has also had a number of wins during the year, and building further the Pipeline in this area also remains a target.

Divisional Reviews continued



AsPac

Sectors we operate in:

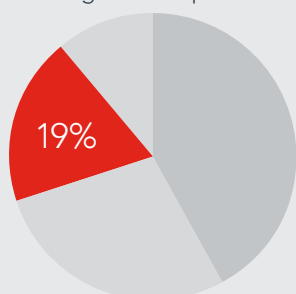
- Defence
- Health
- Justice & Immigration
- Citizen Services
- Transport

Revenue

£621.4m

2018: £548.2m

Percentage of Group revenue

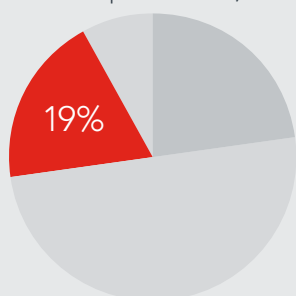


Underlying Trading Profit (UTP)

£31.3m

2018: £26.8m

Percentage of Group UTP (before Corporate costs)



Serco operates in Australia, New Zealand and Hong Kong in the Asia Pacific region, providing services in each of the Justice, Immigration, Defence, Health, Transport and Citizen Services sectors. The AsPac Division accounts for 19% of the reported revenue for the Group.

Revenue for 2019 was £621.4m (2018: £548.2m), an increase of 13% in reported currency. In Australian dollars, the main currency for operations of the Division, revenue for the year was equivalent to approximately A\$1,137m (2018: A\$980m). The weakening of local currency against Sterling reduced revenue by £15m or 3%; the organic change at constant currency was therefore growth of 16%, or £88m. The largest contributor to this growth was the start of operations on 1 July 2019 of the AHSC defence garrison healthcare services contract in Australia. There was also strong growth in our Citizen Services operations, including further expanding our support to the Department of Human Services and Australia's National Disability Insurance Agency, together with new contact centre services to the Victoria Police Assistance Line for non-emergency incidents. There was also an increase in workload in Immigration Services.

Underlying Trading Profit, excluding the effect of IFRS16 adoption, was £31.1m (2018: £26.8m), representing a margin of 5.0% (2018: 4.9%) and an increase of 16%; excluding the adverse currency movement of £0.9m, the increase at constant currency was 19%. The improvement in profitability includes the benefit of the growth in our Citizen Services operations, as well as the AHSC contract moving to its full operational stage quicker than anticipated, with profitability in the second half of the year more than offsetting the transition costs mainly incurred in the first half.

Within Underlying Trading Profit there was £3m of OCP utilisation required to offset the loss-making operations in Hong Kong (2018: £5m). Contract & Balance Sheet Review adjustments were £nil (2018: £13.7m net credit), therefore Trading Profit, taking into account the beneficial effect of IFRS16 implementation of £0.2m (2018: n/a), was £31.3m (2018: £40.5m).

AsPac represented around £1.1bn or 20% of the Group's order intake. The largest was the AHSC contract for the provision of healthcare services personnel at defence garrisons across Australia, which was valued at AU\$1.01bn (around £560m) over the initial six-year term; working as a sub-contractor to BUPA, Serco will source and manage more than 1,200 professional healthcare staff to support the delivery of on-base

integrated health care to over 80,000 Australian Defence Force members and reservists across Australia. A further new contract was the AU\$115m seven-year contract to operate Adelaide Remand Centre on behalf of the South Australia Department for Correctional Services. Important extensions were also secured during the year, including the two-year extension for Australian immigration services with an estimated value of £0.4bn, and South Queensland Correctional Centre also for two years. Serco was also successful in our rebid for the Victorian Department of Justice and Community Safety to continue operating the road traffic camera program across the State. The one rebid of note that was lost in 2019 is that for transport management of the Tsing Sha Control Area in Hong Kong which had annual revenue of around £20m but was an onerous contract and therefore does not impact UTP.

Of existing work where an extension or rebid will be required at some point before the end of 2022, there are around 10 contracts with annual revenue of over £5m within the AsPac Division; in aggregate, these represent well over half of the current level of annual revenue for the Division; this high proportion reflects that the Australia onshore immigration services contract requires further extension or rebid again at the end of 2021, with this accounting for around 30% of current Divisional revenue. Others that will require extending or rebidding in 2020 are the Australian Department of Human Services framework contract, while Fiona Stanley Hospital, Acacia Prison, South Queensland Correctional Centre and the Tax Office framework contract all become potentially due in 2021. In October 2019, AsPac responded to the tender for the Royal Australian Navy contracts to replace to the existing Fleet Marine Services contracts (to be known as the Defence Marine Support Services (DMSS) contracts). The DMSS contracts awards are anticipated to be announced in the first half of 2020. Serco's current Fleet Marine Services contract will continue to operate until 30 September 2021.

As set out above, the largest opportunity in our Pipeline of major new bid opportunities at the start of 2019 was won – defence health support in Australia. A number of other opportunities were either lost or removed from the Pipeline during the year. Rebuilding the Pipeline saw progress in the second half with a small number of opportunities added across the Justice & Immigration, Defence and Citizen Services sectors, with further progress across these and the Transport and Health sectors anticipated in 2020.



Middle East

Sectors we operate in:

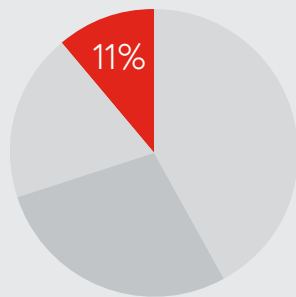
- Defence
- Transport
- Health
- Citizen Services

Revenue

£349.6m

2018: £342.3m

Percentage of Group revenue

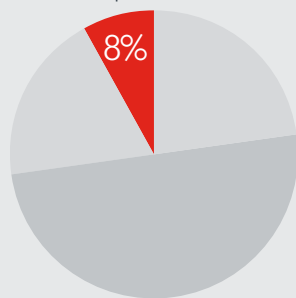


Underlying Trading Profit (UTP)

£13.6m

2018: £21.5m

Percentage of Group UTP (before Corporate costs)



Operations in the Middle East Division include Transport, Defence, Health and Citizen Services, with the region accounting for approximately 11% of the Group's reported revenue.

Revenue for 2019 was £349.6m (2018: £342.3m), an increase of 2% in reported currency. The strengthening of local currency against Sterling increased revenue by £15m or 4%; the organic change at constant currency was therefore a decline of 2%. There was growth from expanded services at the Dubai Metro and from the new contracts for fire and rescue services at King Fahd International Airport (KFIA), support services at Dr. Soliman Fakeeh Hospital (DSFH) and advisory services to Mashroaf in Saudi Arabia. These were offset by reduced revenue on the rebid of the MELABS contract providing defence base logistics and support services, the loss of the Bahrain air navigation services contract and a reduction in our Saudi rail operations.

Underlying Trading Profit, excluding the effect of IFRS16 adoption, was £13.6m (2018: £21.5m), representing a margin of 3.9% (2018: 6.3%) and a decline of 37%; excluding the favourable currency movement of £0.4m, the decline at constant currency was 39%. As expected, this decline was driven by the significant reduction in margins on the MELABS contract, following the successful rebid which has extended the life of the contract for a further five years including option periods. There are no OCP contracts in the Division and therefore no OCP utilisation within Underlying Trading Profit. There were no Contract & Balance Sheet Review adjustments in the latest or prior year. Trading Profit, after the beneficial effect of IFRS16 implementation of £0.3m (2018: n/a), was therefore £13.9m (2018: £21.5m).

The Middle East represented £0.2bn of the Group's order intake. Included in the 2018

order intake following receipt of a letter of intent was the two-year extension to continue operating and maintaining the Dubai Metro until September 2021. Intake in the year included new contracts for advisory services to Mashroaf (Saudi Arabia's National Program to Support the Management of Projects in Public Entities), facilities management and patient-facing services to DSFH in Jeddah, and several other facilities management contracts in Abu Dhabi. During the year Serco also secured further contract extensions for our Air Navigation Services (ANS) support in Dubai and Baghdad.

Of existing work where an extension or rebid will be required at some point before the end of 2022, there are around 15 contracts with annual revenue of over £5m within the Middle East Division; in aggregate, these represent well over half of the current level of annual revenue for the Division. The relatively high proportion reflects that the Dubai Metro contract becomes due for rebid in September 2021, with this accounting for around 30% of current Divisional revenue. Further extensions or rebids will also be required for each of the Dubai and Baghdad ANS contracts, together with the MELABS and Saudi rail operations.

Our Pipeline of major new bid opportunities in the Middle East includes a small number in the Transport sector. The Pipeline remains significantly lower than in prior years, and effort is ongoing to rebuild it across all Serco's sectors of operation in the region. We still believe that the dynamism and ambition of governments in the GCC offers the opportunity to deliver truly innovative and world-leading services. Therefore, we have recently established a new ExperienceLab, mirroring what we have in the UK, for user-centred design to deliver exciting improvements to existing and new customers in 2020.

Corporate costs

Corporate costs relate to typical central function costs of running the Group, including executive, governance and support functions such as HR, finance and IT. Where appropriate, these costs are stated after allocation of recharges to operating Divisions. The costs of Group-wide programmes and initiatives are also incurred centrally.

While there are ongoing actions to deliver savings and improve efficiencies of our central functions, in 2019 there were some areas of investment and increases in costs which resulted in overall corporate costs at the Underlying Trading Profit level that were £5.4m higher at £45.5m (2018: £40.1m).

The Group operates a large number of long-term contracts at different phases of their contract life cycle. Within the Group's portfolio, there are a small number of contracts where the balance of risks and opportunities indicates that they might be onerous if

transformation initiatives or contract changes are not successful. The Group has concluded that these contracts do not require an onerous contract provision on an individual basis. Following the individual contract reviews, the Group has also undertaken a top down assessment which assumes that, whilst the contracts may not be onerous on an individual basis, as a portfolio there is a risk that at least some of the transformation programmes or customer negotiations required to avoid a contract loss, will not be fully successful, and it is more likely than not that one or more of these contracts will be onerous. Therefore, in considering the Group's overall onerous contract provision, the Group has made a best estimate of the provision required to take into consideration this portfolio risk. As a result, the risk of OCPs and the monitoring of individual contracts for indicators remains a critical estimate for the Group. The amount recognised in the year is £6.2m at the Trading Profit level within the Corporate costs segment, which after this charge is therefore £51.7m (2018: £40.1m).

Finance Review

Angus Cockburn
Group Chief Financial Officer



Revenue of £3,248.4m increased 15% from the prior year which included 8.2% organic growth at constant currency. Underlying Trading Profit increased to £120.2m driven by revenue growth and margin improvement from 3.3% to 3.7%. Positive Free Cash Flow of £62.0m. All contributing to the Board supporting restarting the dividend.

In summary

- Strong revenue growth during the year with a significant portion being from organic business
- Margin improvements driven by strong cost control while achieving significant revenue growth and successfully completing our first significant acquisition
- Exceptional restructuring costs £20m lower than prior year as transformation activity related to the Strategy Review comes to an end
- Positive Free Cash Flow of £62.0m due to increase in underlying profits, neutral working capital movement and lower cash outflow from OCPs

For the year ended 31 December 2019	Underlying £m	Non underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Statutory pre exceptional £m	Exceptional items £m	Statutory £m
Revenue	3,248.4	–	3,248.4	–	3,248.4	–	3,248.4
Cost of sales	(2,941.5)	13.2	(2,928.3)	–	(2,928.3)	–	(2,928.3)
Gross profit	306.9	13.2	320.1	–	320.1	–	320.1
Administrative expenses	(214.2)	–	(214.2)	(7.5)	(221.7)	(23.4)	(245.1)
Share of profits in joint ventures and associates, net of interest and tax	27.5	–	27.5	–	27.5	–	27.5
Profit before interest and tax	120.2	13.2	133.4	(7.5)	125.9	(23.4)	102.5
Margin	3.7%	–	4.1%	–	3.9%	–	3.2%
Net finance costs	(21.8)	–	(21.8)	–	(21.8)	–	(21.8)
Profit before tax	98.4	13.2	111.6	(7.5)	104.1	(23.4)	80.7
Tax charge	(24.4)	(4.5)	(28.9)	1.5	(27.4)	(2.7)	(30.1)
Effective tax rate	(24.8%)	–	(25.9%)	–	(26.3%)	–	(37.3%)
Profit/(loss) for the period	74.0	8.7	82.7	(6.0)	76.7	(26.1)	50.6
Minority interest	0.2	–	0.2	–	0.2	–	0.2
Earnings per share – basic (pence)	6.31	–	7.05	–	6.54	–	4.31
Earnings per share – diluted (pence)	6.16	–	6.89	–	6.39	–	4.21

For the year ended 31 December 2018	Underlying £m	Non underlying items £m	Trading £m	Amortisation and impairment of intangibles arising on acquisition £m	Statutory pre exceptional £m	Exceptional items £m	Statutory £m
Revenue	2,836.8	–	2,836.8	–	2,836.8	–	2,836.8
Cost of sales	(2,570.2)	23.6	(2,546.6)	–	(2,546.6)	–	(2,546.6)
Gross profit	266.6	23.6	290.2	–	290.2	–	290.2
Administrative expenses	(202.3)	–	(202.3)	(4.3)	(206.6)	(31.9)	(238.5)
Share of profits in joint ventures and associates, net of interest and tax	28.8	–	28.8	–	28.8	–	28.8
Profit before interest and tax	93.1	23.6	116.7	(4.3)	112.4	(31.9)	80.5
Margin	3.3%	–	4.1%	–	4.0%	–	2.8%
Net finance costs	(13.9)	–	(13.9)	–	(13.9)	7.5	(6.4)
Profit before tax	79.2	23.6	102.8	(4.3)	98.5	(24.4)	74.1
Tax charge	(20.6)	8.7	(11.9)	3.1	(8.8)	2.1	(6.7)
Effective tax rate	(26.0%)	–	(11.6%)	–	(8.9%)	–	(9.0%)
Profit/(loss) for the period	58.6	32.3	90.9	(1.2)	89.7	(22.3)	67.4
Minority interest	0.0	–	0.0	–	0.0	–	0.0
Earnings per share – basic (pence)	5.36	–	8.31	–	8.20	–	6.16
Earnings per share – diluted (pence)	5.21	–	8.08	–	7.97	–	5.99

Alternative Performance Measures (APMs) and other related definitions

Overview

APMs used by the Group are reviewed below to provide a definition and reconciliation from each non-IFRS APM to its IFRS equivalent, and to explain the purpose and usefulness of each APM.

In general, APMs are presented externally to meet investors' requirements for further clarity and transparency of the Group's financial performance. The APMs are also used internally in the management of our business performance, budgeting and forecasting, and for determining Executive Directors' remuneration and that of other management throughout the business.

APMs are non-IFRS measures. Where additional revenue is being included in an APM, this reflects revenues presented elsewhere within the reported financial information, except where amounts are recalculated to reflect constant currency. Where items of profits or costs are being excluded in an APM, these are included elsewhere in our reported financial information as they represent actual profits or costs of the Group, except where amounts are recalculated to reflect constant currency. As a result, APMs allow investors and other readers to review different kinds of revenue, profits and costs and should not be used in isolation. Other commentary within the Strategic Report, including the other sections of this Finance Review, as well as the Consolidated Financial Statements and their accompanying notes, should be referred to in order to fully appreciate all the factors that affect our business. We strongly encourage readers not to rely on any single financial measure, but to carefully review our reporting in its entirety.

With effect from 1 January 2019, the Group has applied IFRS16 Leases in the preparation of its financial results. The prior period financial information has not been restated under IFRS16 in accordance with the modified retrospective approach to transition taken by the Group. This approach has been taken as it most closely aligns to the full retrospective approach without requiring an extensive review of historical changes to lease agreements within the Group. The following APMs have been redefined to take into consideration the impact of IFRS16 and to ensure they continue to be useful measures for investors and readers of the accounts, and the impact of the definition change has been illustrated within the Finance Review: Free Cash Flow; Trading Cash Flow; and Invested Capital. A new APM has been introduced which has been termed Adjusted Net Debt, the definition of which is provided below.

Certain APMs for the current period have been provided on a basis consistent with the accounting standards applied for the prior period to illustrate the impact of IFRS16 and to assist with comparability. This information has been provided at the end of this Finance Review.

The methodology applied to calculating the APMs has not changed during the year for any measure other than those outlined above.

Finance Review continued

Alternative revenue measures

Reported revenue at constant currency

Reported revenue, as shown on the Group's Consolidated Income Statement on page 167, reflects revenue translated at the average exchange rates for the period. In order to provide a comparable movement on the previous year's results, reported revenue is recalculated by translating non-Sterling values for the year to 31 December 2019 into Sterling at the average exchange rate for the year ended 31 December 2018.

For the year ended 31 December	2019 £m
Reported revenue at constant currency	3,206.2
Foreign exchange differences	42.2
Reported revenue at reported currency	3,248.4

Organic Revenue at constant currency

Reported revenue may include revenue generated by businesses acquired during a particular year from the date of acquisition and/or generated by businesses sold during a particular year up to the date of disposal. In order to provide a comparable movement which ignores the effect of both acquisitions and disposals on the previous year's results, Organic Revenue at constant currency is recalculated by excluding the impact of any relevant acquisitions or disposals.

There are three acquisitions excluded for the calculation of Organic Revenue in the year to 31 December 2019:

- The acquisition of 100% of the issued share capital of BTP Systems, LLC (BTP) on 26 January 2018.
- The acquisition of six UK health facilities management contracts which were transferred from Carillion plc between June 2018 and August 2018.
- The acquisition of the Naval Systems Business Unit (NSBU) from Alion Science and Technology Corporation on 1 August 2019.

An adjustment is required for one disposal:

- The disposal of certain contracts within the Anglia Support Partnership on 31 October 2018.

Organic Revenue growth is calculated by comparing the current year Organic Revenue at constant currency exchange rates with the prior year Organic Revenue at reported currency exchange rates.

For the year ended 31 December	2019 £m
Organic Revenue at constant currency	3,014.1
Foreign exchange differences	34.5
Organic Revenue at reported currency	3,048.6
Impact of any relevant acquisitions or disposals	199.8
Reported revenue at reported currency	3,248.4

For the year ended 31 December	2018 £m
Organic Revenue at reported currency	2,784.5
Impact of any relevant acquisitions or disposals	52.3
Reported revenue at reported currency	2,836.8

Revenue plus share of joint ventures and associates

Reported revenue, as shown on the Group's Consolidated Income Statement on page 167, excludes the Group's share of revenue from joint ventures and associates, with Serco's share of profits in joint ventures and associates (net of interest and tax) consolidated within reported operating profit as a single line further down the Consolidated Income Statement. The alternative measure includes the share of joint ventures and associates for the benefit of reflecting the overall change in scale of the Group's ongoing operations, which is particularly relevant for evaluating Serco's presence in market sectors such as Defence and Transport. The alternative measure allows the performance of the joint venture and associate operations themselves, and their impact on the Group as a whole, to be evaluated on measures other than just the post-tax result.

For the year ended 31 December	2019 £m	2018 £m
Revenue plus share of joint ventures and associates	3,643.0	3,211.9
Exclude share of revenue from joint ventures and associates	(394.6)	(375.1)
Reported revenue	3,248.4	2,836.8

Alternative profit measures

For the year ended 31 December	2019 £m	2018 £m
Underlying Trading Profit	120.2	93.1
Non-underlying items:		
OCP charges and releases	0.8	12.8
Other Contract & Balance Sheet Review adjustments and one-time items	12.4	10.8
Total non-underlying items	13.2	23.6
Trading Profit	133.4	116.7
Operating exceptional items	(23.4)	(31.9)
Amortisation and impairment of intangibles arising on acquisition	(7.5)	(4.3)
Operating profit	102.5	80.5

Underlying Trading Profit (UTP)

The Group uses an alternative measure, Underlying Trading Profit, to make adjustments for unusual items that occur and to remove the impact of historical issues. UTP therefore provides a measure of the underlying performance of the business in the current year.

Charges and releases on all Onerous Contract Provisions (OCPs) that arose during the 2014 Contract & Balance Sheet Review are excluded from UTP in the current and prior years. Charges associated with the creation of new OCPs identified are included within UTP to the extent that they are not considered sufficiently material to require separate disclosure on an individual basis. OCPs reflect the future multiple year cost of delivering onerous contracts and do not reflect only the current cost of operating the contract in the latest individual year. It should be noted that, as for operating profit, UTP benefits from OCP utilisation of £53.6m in 2019 (2018: £51.8m). The utilisation, which neutralises the in-year losses on previously identified onerous contracts, consists of £12.7m accelerated utilisation associated with the impairment of right of use assets on onerous contracts created during the period, in accordance with IFRS16, and £40.9m against other contract losses. In addition, an amount of £3.8m in respect of impairment of right of use assets was recognised outside underlying profit.

Revisions to accounting estimates and judgements which arose during the 2014 Contract & Balance Sheet Review are reported alongside other one-time items where the impact of an individual item is material. Items in 2019 which were recorded within this category included the impairment of assets created in accordance with IFRS16 on the Caledonian Sleepers contract for which the provision had been fully utilised, the receipt of an insurance claim for costs previously reported outside of UTP recognised in the 2014 Contract & Balance Sheet Review and monies in respect of the DFRP settlement amounting to £9.6m.

Both OCP adjustments and other Contract & Balance Sheet Review and one-time items are identified and separated from the APM in order to give clarity of the underlying performance of the Group and to separately disclose the progress made on these items.

Underlying trading margin is calculated as UTP divided by statutory revenue.

The non-underlying column in the summary income statement on pages 42 and 43 includes the tax impact of the above items and tax items that, in themselves, are considered to be non-underlying. Further detail of such items is provided in the tax section below.

Trading Profit

The Group uses Trading Profit as an alternative measure to operating profit, as shown on the Group's Consolidated Income Statement on page 167, by making two adjustments.

Firstly, Trading Profit excludes exceptional items, being those considered material and outside of the normal operating practices of the Group to be suitable for separate presentation and detailed explanation.

Secondly, amortisation and impairment of intangibles arising on acquisitions are excluded, because these charges are based on judgements about the value and economic life of assets that, in the case of items such as customer relationships, would not be capitalised in normal operating practice.

Finance Review continued

Alternative profit measures continued

UTP at constant currency

UTP disclosed above has been translated at the average foreign exchange rates for the year. In order to provide a comparable movement on the previous year's results, UTP is recalculated by translating non-Sterling values for the year to 31 December 2019 into Sterling at the average exchange rate for the year ended 31 December 2018.

For the year ended 31 December	2019 £m
Underlying Trading Profit at constant currency	116.5
Foreign exchange differences	3.7
Underlying Trading Profit at reported currency	120.2

Alternative Earnings Per Share (EPS) measures

For the year ended 31 December	2019 pence	2018 pence
Underlying EPS, basic	6.31	5.36
Net impact of non-underlying items and amortisation and impairment of intangibles arising on acquisition	0.23	2.84
EPS before exceptional items, basic	6.54	8.20
Impact of exceptional items	(2.23)	(2.04)
Reported EPS, basic	4.31	6.16

For the year ended 31 December	2019 pence	2018 pence
Underlying EPS, diluted	6.16	5.21
Net impact of non-underlying items and amortisation and impairment of intangibles arising on acquisition	0.23	2.76
EPS before exceptional items, diluted	6.39	7.97
Impact of exceptional items	(2.18)	(1.98)
Reported EPS, diluted	4.21	5.99

EPS before exceptional items

EPS, as shown on the Group's Consolidated Income Statement on page 167, includes exceptional items charged or credited to the income statement in the year. EPS before exceptional items aids consistency with historical operating performance.

Underlying EPS

Reflecting the same adjustments made to operating profit to calculate UTP as described above and including the related tax effects of each adjustment and any other non-underlying tax adjustments as described in the tax charge section below, an alternative measure of EPS is presented. This aids consistency with historical results and enables performance to be evaluated before the unusual or one-time effects described above. The full reconciliation between statutory EPS and Underlying EPS is provided in the summary income statements on pages 42 and 43.

Alternative cash flow and Net Debt measures

Free Cash Flow (FCF)

We present an alternative measure for cash flow to reflect cash flow from operating activities before exceptional items, which is the measure shown on the Consolidated Cash Flow Statement on page 171. This IFRS measure is adjusted to include dividends we receive from joint ventures and associates and deducting net interest paid, the capital element of lease payments and net capital expenditure on tangible and intangible asset purchases. This is a change to the definition applied in the prior year, where the capital element of finance leases was excluded from FCF. The adjustment has been made following the implementation of IFRS16, under which all leases, excluding short term and low value leases, are accounted for as lease liabilities under the new standard and cash payments associated with the lease liabilities include a capital and interest component. The previous definition of FCF would result in the capital component of leases being excluded from FCF which is not considered to be reflective of the operating cash flow of the Group.

For the year ended 31 December	2019 £m	2018 (*restated) £m
Free Cash Flow	62.0	16.3
Exclude dividends from joint ventures and associates	(25.4)	(29.7)
Exclude net interest paid	21.0	16.1
Exclude capitalised finance costs paid	1.2	2.0
Exclude capital element of lease repayments	70.2	8.7
Exclude proceeds received from exercise of share options	(0.2)	–
Exclude purchase of intangible and tangible assets net of proceeds from disposal	23.3	29.5
Cash flow from operating activities before exceptional items	152.1	42.9
Exceptional operating cash flows	(49.2)	(40.2)
Cash flow from operating activities	102.9	2.7

* Following the implementation of IFRS16 Leases, the definition of Free Cash Flow has been amended to include the capital element of lease payments in 2018.

For the year ended 31 December	2019 £m	2018 £m
Free Cash Flow under previous definition	132.2	25.0
Include capital element of lease payments	(70.2)	(8.7)
Free Cash Flow	62.0	16.3

The high Free Cash Flow in 2019 under the previous definition excludes the cash payments associated with operating leases which are cash outflows associated with a combination of capital and interest payments under IFRS16 Leases. This supports the rationale behind the change in definition for Free Cash Flow adopted in 2019.

UTP cash conversion

FCF as defined above, includes interest and tax cash flows. In order to calculate an appropriate cash conversion metric equivalent to UTP, Trading Cash Flow is derived from FCF by excluding tax and interest items. UTP cash conversion therefore provides a measure of the efficiency of the business in terms of converting profit into cash before taking account of the impact of interest, tax and exceptional items.

For the year ended 31 December	2019 £m	2018 (*restated) £m
Free Cash Flow	62.0	16.3
Add back:		
Tax paid	31.2	10.6
Non-cash R&D expenditure	0.1	0.1
Net interest paid	21.0	16.1
Capitalised finance costs paid	1.2	2.0
Trading Cash Flow	115.5	45.1
Underlying Trading Profit	120.2	93.1
Underlying Trading Profit cash conversion	96%	48%

* Following the implementation of IFRS16 Leases, the definition of Free Cash Flow has been amended to include the capital element of lease payments in 2018.

Finance Review continued

Alternative cash flow and Net Debt measures continued

Net Debt and Adjusted Net Debt

We present an alternative measure to bring together the various funding sources that are included on the Group's Consolidated Balance Sheet on page 170 and the accompanying notes. Net Debt is a measure to reflect the net indebtedness of the Group and includes all cash and cash equivalents and any debt or debt-like items, including any derivatives entered into in order to manage risk exposures on these items. Net Debt includes all lease liabilities recognised under IFRS16 and therefore the Group has introduced the alternative measure of Adjusted Net Debt which excludes all lease liabilities recognised under IFRS16 for the year ended 31 December 2019. For the year ended 31 December 2018, liabilities for leases previously categorised as finance leases are excluded in arriving at Adjusted Net Debt.

The Adjusted Net Debt measure has been introduced because it more closely aligns to the Consolidated Total Net Borrowings measure used for the Group's debt covenants, which is prepared under accounting standards applicable prior to the adoption of IFRS16. Principally as a result of the Asylum Accommodation and Support Services Contract (AASC), the Group has entered into a significant number of leases which contain a termination option. The use of Adjusted Net Debt removes the volatility that would result from estimations of lease periods and the recognition of liabilities associated with such leases where the group has the right to cancel the lease and hence the corresponding obligation. Though the intention is not to exercise the options to cancel the leases, it is available unlike other debt obligations.

For the year ended 31 December	2019 £m	2018 £m
Cash and cash equivalents	89.5	62.5
Loans payable	(305.0)	(239.5)
Lease liabilities	(369.9)	(14.8)
Derivatives relating to Net Debt	1.0	3.8
Net Debt	(584.4)	(188.0)
Add back: Lease liabilities	369.9	14.8
Adjusted Net Debt	(214.5)	(173.2)

Pre-tax Return on Invested Capital (ROIC)

ROIC is a measure to assess the efficiency of the resources used by the Group and is a metric used to determine the performance and remuneration of the Executive Directors. ROIC is calculated based on UTP and Trading Profit using the Income Statement for the year and a two-point average of the opening and closing balance sheets. The composition of Invested Capital and calculation of ROIC are summarised in the table below.

The definition of Invested Capital has been adjusted from the prior year to exclude right of use assets recognised under IFRS16 Leases. This is because the Invested Capital of the Group are those items within which resources are, or have been, committed, which is not the case for many leases within the Group, which would previously have been classified as operating leases, where termination options exist and commitments for expenditure are in future years. The impact of the change in the alternative performance measure has been set out below. In the prior year only finance lease assets have been removed as no right of use assets existed for operating leases prior to the adoption of IFRS16.

For the year ended 31 December	2019 £m	2018 (*restated) £m
ROIC excluding right of use assets		
Non-current assets		
Goodwill	671.2	579.6
Other intangible assets	96.5	63.7
Property, plant and equipment	47.3	44.3
Interest in joint ventures and associates	23.6	20.6
Trade and other receivables	26.5	30.3
Current assets		
Inventory	18.3	22.9
Contract assets, trade and other receivables	609.2	543.8
Total invested capital assets	1,492.6	1,305.2
Current liabilities		
Contract liabilities, trade and other payables	(555.8)	(494.0)
Non-current liabilities		
Contract liabilities, trade and other payables	(72.7)	(109.9)
Total invested capital liabilities	(628.5)	(603.9)
Invested Capital	864.1	701.3
Two-point average of opening and closing Invested Capital	782.7	686.3
Trading Profit	133.4	116.7
ROIC%	17.0%	17.0%
Underlying Trading Profit	120.2	93.1
Underlying ROIC%	15.4%	13.6%
For the year ended 31 December	2019 £m	2018 (*restated) £m
ROIC including right of use assets		
Invested Capital including right of use assets	1,209.4	725.4
Impact of including right of use assets	(345.3)	(24.1)
Invested Capital	864.1	701.3
ROIC% including right of use assets	13.8%	16.4%
Impact of including right of use assets	3.2%	0.6%
ROIC%	17.0%	17.0%
Underlying ROIC% including right of use assets	12.4%	13.1%
Impact of including right of use assets	3.0%	0.5%
Underlying ROIC%	15.4%	13.6%

* The ROIC calculation at 31 December 2018 has been restated to exclude right of use assets. The measure at 31 December 2018 has been adjusted from that disclosed within the 30 June 2019 Stock Exchange Announcement so the 31 December 2017 balance sheet, used in the two-point average, is in accordance with IFRS15. For reference, using the same principles for the calculation as at 30 June 2018 yields a ROIC of 7.9%

Finance Review continued

Overview of financial performance

Revenue

Reported revenue increased by 14.5% in the year to £3,248.4m (2018: £2,836.8m), a 13.0% increase in constant currency. Organic revenue growth at constant currency was 8.2%.

Commentary on the revenue performance of the Group is provided in the Chief Executive's Review and the Divisional Reviews.

Trading Profit

Trading Profit for the year was £133.4m (2018: £116.7m).

Commentary on the trading performance of the Group is provided in the Chief Executive's Review and the Divisional Reviews.

Underlying Trading Profit

UTP was £120.2m (2018: £93.1m), up 29.1%. At constant currency, UTP was £116.5m, up 25.1%.

Commentary on the underlying performance of the Group is provided in the Chief Executive's Review and the Divisional Reviews.

Excluded from UTP were net releases from OCPs of £0.8m (2018: net releases of £12.8m) following the detailed reassessment undertaken as part of the budgeting process. Also excluded from UTP were net releases and additional profits of £12.4m (2018: net releases and additional profits of £10.8m) relating to items identified during the 2014 Contract & Balance Sheet Review, and other one-time items.

The cumulative to date improvement to Trading Profit as a result of OCP charges and releases and adjustments to items identified during the 2014 Contract & Balance Sheet Review is within 2% of the 2014 total charge to Trading Profit arising from the review.

The tax impact of items in UTP and other non-underlying tax items is discussed in the tax section of this Finance Review.

Joint ventures and associates – share of results

In 2019, the most significant joint ventures and associates in terms of scale of operations were AWE Management Limited and Merseyrail Services Holding Company Limited, with dividends received of £17.6m (2018: £20.0m) and £7.8m (2018: £8.7m) respectively. Total revenues generated by these businesses were £1,065.4m (2018: £1,024.7m) and £177.9m (2018: £160.8m) respectively.

While the revenues and individual line items are not consolidated in the Group Consolidated Income Statement, summary financial performance measures for the Group's proportion of the aggregate of all joint ventures and associates are set out below for information purposes.

For the year ended 31 December	2019 £m	2018 £m
Revenue	394.6	375.1
Operating profit before exceptional items	33.8	34.6
Net investment revenue	0.3	0.3
Income tax expense	(6.6)	(6.1)
Profit after tax before exceptional charge	27.5	28.8
Exceptional pension charge (see exceptional items below)	–	(0.3)
Profit after tax	27.5	28.5
Dividends received from joint ventures and associates	25.4	29.7

Revenue across both of the Group's material joint ventures has increased during the year due to changes in the volumes transacted by the underlying contracts. Profitability on both remained consistent with the prior year.

Exceptional items

Exceptional items are items of financial performance that are outside normal operations and are material to the results of the Group either by virtue of size or nature. As such, the items set out below require separate disclosure on the face of the income statement to assist in the understanding of the performance of the Group.

For the year ended 31 December	2019 £m	2018 £m
Exceptional items arising		
Exceptional loss on disposal of subsidiaries and operations	–	(0.5)
Other exceptional operating items		
Restructuring costs	(12.8)	(32.3)
Increase in onerous lease provision	–	(1.8)
Costs associated with SFO investigation	(25.2)	0.4
Reversal of impairment of interest in joint venture and related loan balances	–	0.8
Reversal of impairment on loan balances	–	13.9
Cost of Guaranteed Minimum Pension equalisation	–	(9.6)
Release of/(increase in) other provisions and other items	19.3	(2.8)
Costs associated with the acquisition of Naval Systems Business Unit	(4.7)	–
Other exceptional operating items	(23.4)	(31.4)
Exceptional operating items	(23.4)	(31.9)
Exceptional finance income	–	7.5
Exceptional tax	(2.7)	2.1
Total operating and financing exceptional items net of tax	(26.1)	(22.3)

Other exceptional operating items

The Group is incurring costs in relation to restructuring programmes resulting from the Strategy Review. These costs include redundancy payments, provisions (including onerous leases), external advisory fees and other incremental costs. Due to the nature and scale of the impact of the transformation phase of the Strategy Review, the incremental costs associated with this programme are considered to be exceptional. Costs associated with the restructuring programme resulting from the Strategy Review must meet the following criteria: that they are directly linked to the implementation of the Strategy Review; they are incremental costs as a result of the activity; and they are non business as usual costs. In 2019, a charge of £12.8m (2018: £32.3m) arose in relation to the restructuring programme resulting from the Strategy Review. The Strategy Review is discussed in more detail in the Strategic Report on pages 20 to 21. The transformation activities associated with this are complete and, as such, all exceptional restructuring costs related to this programme have ended in 2019. Non-exceptional restructuring charges are incurred by the business as part of normal operational activity, which in the year totalled £8.9m (2018: £6.3m) and were included within operating profit before exceptional items.

There was an exceptional charge totalling £25.2m (2018: credit of £0.4m) associated with the SFO's investigation and the programme of Corporate Renewal. These costs have historically been treated as exceptional and consistent treatment is applied in 2019. During the year the Group paid £22.9m in penalties and legal costs associated with the SFO's investigation. The final judgement was provided on 4 July 2019. The credit in 2018 reflects the recovery of costs from the Group's insurance providers. The remaining £2.3m relates to legal costs incurred by the Group in respect of the investigation.

In 2018, an exceptional charge of £9.6m was recorded to recognise the Group's obligations associated with equalising the Guaranteed Minimum Pension (GMP) payments between male and female employees for the Group's defined benefit pension schemes following a High Court ruling made in October 2018. The Serco Pension and Life Assurance Scheme (SPLAS) recorded the largest charge being £9.0m. There was no equivalent charge in 2019.

The decrease in other provisions and other items of £19.3m (2018: increase of £2.8m) predominantly relates to a commercial dispute which was settled in 2019. The treatment of the reduction as exceptional is consistent with the recognition of the original charge associated with the same matter in 2014.

The Group completed the acquisition of the Naval Systems Business Unit (NSBU) from Alion Science and Technology Corporation in 2019. The acquisition achieved final regulatory approvals and completed in August 2019. The transaction and implementation costs of £4.7m have been treated as exceptional costs in line with the Group's accounting policy.

An exceptional profit of £13.9m was recognised in 2018 for the settlement of consideration associated with the sale of Serco GmbH in 2012 through the offsetting of outstanding loan balances, the receivable of which had been impaired. An exceptional loss on disposal of £27.7m was recorded in 2012 in respect of the sale. No such transactions took place in 2019.

Finance Review continued

Exceptional items continued

Exceptional finance costs

There were no exceptional finance costs in the year ended 31 December 2019. During 2018, part of the consideration for the sale of the Group's private sector BPO business in 2015 was a loan note with a face value of £30m accruing compound interest of 7%. The receivable associated with this loan note was recorded at a fair value of £19.5m. The discount on the loan note was unwound through the Group's net finance cost on an annual basis. During October 2018, the Intelenet business was sold and therefore repayment of the loan note was triggered resulting in a gain of £7.5m. As this gain was outside the normal financing arrangements of the Group and significant in size it was recorded as exceptional finance income.

Exceptional tax

Exceptional tax for the year was a charge of £2.7m (2018: credit of £2.1m) which arises on exceptional items within operating profit. This charge arises mainly in connection with the decrease in provisions in respect of commercial disputes and legal claims for which a tax credit had been recorded when the provisions were originally recognised. This charge is partially offset by tax deductions in respect of the global restructuring programme and in the US on acquisition costs.

No tax credit arises on the exceptional charge associated with the costs in connection with the SFO investigation.

Pre-exceptional finance costs and investment revenue

Investment revenue of £2.7m (2018: £4.3m) includes interest accruing on net retirement benefit assets of £2.1m (2018: £0.8m), interest earned on deposits and other receivables of £0.5m (2018: £2.3m) and the movement in discounting of other receivables of £0.1m (2018: £1.2m). The decrease in the year is the result of the repayment of the loan note, as noted above, which was previously accruing interest and did so for nine months during 2018. No such interest income arose during 2019.

Finance costs of £24.5m (2018: £18.2m) includes interest incurred on the USPP loans and the Revolving Credit Facility of £13.9m (2018: £13.8m), facility fees and other charges of £1.7m (2018: £3.1m), lease interest payable of £6.9m (2018: £0.6m) which has increased as a result of the adoption of IFRS16 Leases, the movement in discount on provisions of £1.2m (2018: £0.5m) and a loss for foreign exchange on financing activities of £0.8m (2018: £0.2m).

Tax

Tax charge

Underlying tax

In 2019 we recognised a tax charge of £24.4m on underlying trading profits after finance costs. The effective tax rate (24.8%) is slightly lower than in 2018 (26.0%). This is due to a relative reduction in permanent disallowable items which is only partially offset by the geographic mix of where profits have been made, notably the substantial increase in profits in the US.

Pre-exceptional tax

We recognised a tax charge of £27.4m (2018: £8.8m) on pre-exceptional profits which includes underlying tax (£24.4m), tax credit from amortisation on intangibles arising on acquisition of £1.5m and a £4.5m charge arising on non-underlying items. This £4.5m charge consists of the tax impact on non-underlying items together with tax items, that are in themselves considered to be non-underlying:

- The tax on non-underlying items which consists of Contract and Balance Sheet Review adjustments and other material one-time items during the period, totalled a charge of £2.6m reflecting the impact of current or future tax charges (2018: £3.2m charge).
- During the current period we have recognised an additional £0.8m of deferred tax asset in relation to UK losses to reflect the improved forecast taxable income of our UK operations (2018: £2.9m).
- Generally, movements in the valuation of the Group's defined benefit pension schemes and the associated deferred tax impact are reported in the Statement of Comprehensive Income (SOCi) and do not flow through the income statement, therefore do not impact profit before tax or the tax charge. However, the net amount of deferred tax recognised in the balance sheet relates to both the pension accounting and other timing differences, such as recoverable losses. As the net deferred tax balance sheet position is at the maximum level supported by future profit forecasts, the decrease in the deferred tax liability associated with the pension scheme (with the benefit reported in the SOCi) leads to a corresponding decrease in the deferred tax asset to match the future profit forecasts. Such a decrease in the deferred tax asset therefore leads to a charge to tax in the income statement. Where deferred tax charges or releases are the result of movements in the pension scheme valuations rather than trading activity, these are excluded from the calculation of tax on underlying profit and the underlying effective tax rate. These amounted to a £2.7m charge for 2019 (2018: £9.0m credit).

The tax rate on profits before exceptional items, at 26.3%, is higher than the UK standard corporation tax rate of 19%. This is due to the impact of the absence of any deferred tax credit for current year losses incurred, predominantly in the UK, and the impact of higher rates of tax on profits arising on our international operations which is only partially offset by the impact of our joint ventures whose post-tax results are included in our pre-tax profits. Our tax charge in future years could continue to be materially impacted by our accounting for UK deferred taxes. To the extent that future UK tax losses are incurred and are not recognised, our effective tax rate will be driven higher than prevailing standard corporation tax rates.

Exceptional tax

Analysis of exceptional tax is provided in the Exceptional items section above.

Contingent tax assets

At 31 December 2019, the Group has gross estimated unrecognised deferred tax of £1.1bn (tax effected £195m asset), which are potentially available to offset against future taxable income. These principally relate to tax trading losses of £900m. Of these tax losses, £760m have arisen in the UK business (tax effected £129m).

A £21.1m UK tax asset has been recognised at 31 December 2019 (2018: £20.3m) on the basis of forecast utilisation against future taxable income.

Taxes paid

Net corporate income tax of £31.2m (2018: £10.6m) was paid during the year, relating primarily to our operations in AsPac of £19.4m (2018: £8.7m), North America of £12.1m (2018: nil), Europe of £1.1m (2018: £4.1m) and Middle East of £1.1m (2018: £1.1m). The Group's UK operations have transferred tax losses to its profitable joint ventures and associates giving a cash tax inflow in the UK of £2.5m (2018: £3.3m).

The amount of tax paid (£31.2m) differs from the tax charge in the period (£30.1m) mainly due to the effect of future expected cash tax outflows for which a charge has been taken in the current period. In addition, taxes paid/received from Tax Authorities can arise in later periods to the associated tax charge/credit and also there is a time lag on receipts of cash from joint ventures and associates for losses transferred to them.

Further detail is shown below of taxes that have been paid during the year.

Total tax contribution

Our tax strategy of paying the appropriate amount of tax as determined by local legislation in the countries in which we operate, means that we pay a variety of taxes across the Group. In order to increase the transparency of our tax profile, we have shown below the cash taxes that we have paid across our regional markets.

In total during 2019, Serco globally contributed £625.7m of tax to government in the jurisdictions in which we operate.

Taxes by category

For the year ended 31 December 2019	Taxes borne £m	Taxes collected £m	Total £m
Corporation tax	33.5	–	33.5
VAT and similar	9.6	173.0	182.6
People taxes	109.6	291.9	401.5
Other taxes	7.6	0.5	8.1
Total	160.3	465.4	625.7

Taxes by region

For the year ended 31 December 2019	Taxes borne £m	Taxes collected £m	Total £m
UK & Europe	80.8	251.1	331.9
AsPac	37.9	131.6	169.5
Americas	39.1	79.6	118.7
Middle East	2.5	3.1	5.6
Total	160.3	465.4	625.7

Corporation tax, which is the only cost to be separately disclosed in our Financial Statements, is only one element of our tax contribution. For every £1 of corporate tax paid directly by the Group (tax borne), we bear a further £3.78 in other business taxes. The largest proportion of these is in connection with employing our people.

In addition, for every £1 of tax that we bear, we collect £2.90 on behalf of national governments (taxes collected). This amount is directly impacted by the people that we employ and the sales that we make.

Dividends

When dividend payments were suspended in 2014, the Board committed to resuming dividend payments to Serco's shareholders as soon as it judged it prudent to do so. 2019 has been a year of very strong operational and financial performance. It is also the last year of significant outflows of cash related to OCPs and restructuring exceptional costs. Our expectations for 2020 are for further good progress in increasing underlying earnings reducing financial leverage.

The Board is therefore recommending the payment of a final dividend in respect of the 2019 financial year of 1.0p, aligned to the recommended dividend and outlook as described in the Chief Executive's Review. The dividend, subject to shareholder approval at the Annual General Meeting on 14 May 2020, would be paid on 5 June 2020.

Share count and EPS

The weighted average number of shares for EPS purposes was 1,171.4m for the year ended 31 December 2019 (2018: 1,094.4m) and diluted weighted average number of shares was 1,199.0m (2018: 1,125.4m).

In May 2019, the company completed a placement of 111,216,400 new ordinary shares of 2p each raising net proceeds of £138.7m (2018: nil). Additionally, in March 2019, 13,600,000 shares were issued to the Employee Share Ownership Trust to satisfy awards under the Group's share award schemes.

Basic EPS before exceptional items was 6.54p per share (2018: 8.20p); including the impact of exceptional items, Basic EPS was 4.31p (2018: 6.16p). Basic Underlying EPS was 6.31p per share (2018: 5.36p).

Diluted EPS before exceptional items was 6.39p per share (2018: 7.97p); including the impact of exceptional items, Diluted EPS was 4.21p (2018: 5.99p). Diluted Underlying EPS was 6.16p per share (2018: 5.21p).

Finance Review continued

Cash flows

The UTP of £120.2m (2018: £93.1m) converts into a trading cash inflow of £115.5m (2018 restated: £45.1m). The improvement in 2019 cash conversion reflects the increase in profitability from revenue growth and cost efficiencies. In 2019, operating profit for the year has increased by £22.0m, the working capital outflow was £0.1m (2018: £21.6m) and OCP utilisation was £53.6m (2018: £51.8m), although in 2019, £12.7m of the utilisation was not related to a cash cost but rather was related to the impairment of right of use assets created on adoption of IFRS16 within onerous contracts.

The table below shows the operating profit and FCF reconciled to movements in Net Debt. FCF for the year was an inflow of £62.0m compared to £16.3m in 2018. The improvement in FCF is largely as a result of improved trading cash inflows as discussed above. Offsetting the improvement in trading cash inflows is an increase in tax outflows of £20.6m principally arising in our AsPac and Americas operations as described above.

The movement in Adjusted Net Debt is an increase of £41.3m in 2019, a reconciliation of which is provided at the bottom of the following table. The movement includes a net inflow of £138.7m from the placement of 111.2m new shares in May 2019 and exceptional items of £49.2m (2018: £19.2m).

The net cash outflow on acquisition includes a net cash outflow on the acquisition of NSBU of £183.9m and £9.3m of deferred consideration paid in respect of historic acquisitions. In addition, £4.7m of acquisition related costs associated with the NSBU acquisition were recognised as exceptional in the year.

Exceptional cash outflows are higher than the exceptional income statement charge largely due to the provision release of £19.4m seen in the income statement which was a non-cash item.

	2019 £m	2018 (*restated) £m
For the year ended 31 December		
Operating profit	102.5	80.5
Remove exceptional items	23.4	31.9
Operating profit before exceptional items	125.9	112.4
Less: profit from joint ventures and associates	(27.5)	(28.8)
Movement in provisions	(43.1)	(68.1)
Depreciation, amortisation and impairment of leased property, plant and equipment and intangible assets	75.6	6.8
Depreciation, amortisation and impairment of owned property, plant and equipment and intangible assets	43.3	36.4
Other non-cash movements	9.3	16.5
Operating cash inflow before movements in working capital, exceptional items and tax	183.5	75.2
Working capital movements	(0.1)	(21.6)
Tax paid	(31.2)	(10.6)
Non-cash R&D expenditure	(0.1)	(0.1)
Cash flow from operating activities before exceptional items	152.1	42.9
Dividends from joint ventures and associates	25.4	29.7
Interest received	0.4	0.6
Interest paid	(21.4)	(16.7)
Capital element of lease repayments	(70.2)	(8.7)
Capitalised finance costs paid	(1.2)	(2.0)
Purchase of intangible and tangible assets net of proceeds from disposals	(23.3)	(29.5)
Proceeds received from exercise of share options	0.2	–
Free Cash Flow	62.0	16.3
Net cash outflow on acquisition and disposal of subsidiaries	(193.2)	(31.3)
Issue of share capital	138.7	–
Other movements on investment balances	0.2	(0.3)
Capitalisation and amortisation of loan costs	0.1	1.3
Unwind of discounting and capitalisation of interest on loans receivable	–	3.0
Exceptional items	(49.2)	(19.2)
Cash movements on hedging instruments	(2.0)	0.2
Foreign exchange gain /(loss) on Adjusted Net Debt	2.1	(22.3)
Movement in Adjusted Net Debt	(41.3)	(52.3)
Opening Adjusted Net Debt	(173.2)	(120.9)
Closing Adjusted Net Debt	(214.5)	(173.2)
Lease liabilities	(369.9)	(14.8)
Closing Net Debt at 31 December	(584.4)	(188.0)

* Following the implementation of IFRS16 Leases, the definition of Free Cash Flow has been amended to exclude the capital element of lease payments. In addition, proceeds from the exercise of share options has been included within Free Cash Flow.

Net Debt

As at 31 December	2019 £m	2018 £m
Cash and cash equivalents	89.5	62.5
Loans payable	(305.0)	(239.5)
Lease liabilities	(369.9)	(14.8)
Derivatives relating to Net Debt	1.0	3.8
Net Debt	(584.4)	(188.0)
Exclude Lease Liabilities	369.9	14.8
Adjusted Net Debt	(214.5)	(173.2)

Average Adjusted Net Debt as calculated on a daily basis for the year ended 31 December 2019 was £231.0m (2018 restated: £218.7m). Peak Adjusted Net Debt was £356.8m (2018 restated: £292.0m).

Treasury operations and risk management

The Group's operations expose it to a variety of financial risks that include liquidity, the effects of changes in foreign currency exchange rates, interest rates and credit risk. The Group has a centralised treasury function whose principal role is to ensure that adequate liquidity is available to meet the Group's funding requirements as they arise and that the financial risk arising from the Group's underlying operations is effectively identified and managed.

Treasury operations are conducted in accordance with policies and procedures approved by the Board and are reviewed annually. Financial instruments are only executed for hedging purposes and speculation is not permitted. A monthly report is provided to senior management outlining performance against the Treasury Policy and the treasury function is subject to periodic internal audit review.

Liquidity and funding

As at 31 December 2019, the Group had committed funding of £508m (2018: £492m), comprising £213m of private placement notes, a £45m acquisition loan facility which was fully drawn and a £250m revolving credit facility (RCF), of which £200m was undrawn. In addition, during December 2019, the Group cancelled its receivables financing facility of £30m (2018: facility of £30m which was unutilised).

The Group's RCF provides £250m of committed funding for five years from the arrangement date in December 2018.

Interest rate risk

Given the nature of the Group's business, we have a preference for fixed rate debt to reduce the volatility of net finance costs. Our Treasury Policy requires us to maintain a minimum proportion of fixed rate debt as a proportion of overall Adjusted Net Debt and for this proportion to increase as the ratio of EBITDA to interest expense falls. As at 31 December 2019, 99% of the Group's Adjusted Net Debt was at fixed rates.

Foreign exchange risk

The Group is subject to currency exposure on the translation to Sterling of its net investments in overseas subsidiaries. The Group manages this risk where appropriate, by borrowing in the same currency as those investments. Group borrowings are predominantly denominated in Sterling and US Dollar. The Group manages its currency flows to minimise foreign exchange risk arising on transactions denominated in foreign currencies and uses forward contracts where appropriate to hedge net currency flows.

Credit risk

Cash deposits and in-the-money financial instruments give rise to credit risk on the amounts due from counterparties. The Group manages this risk by adhering to counterparty exposure limits based on external credit ratings of the relevant counterparty.

Finance Review continued

Debt covenants

The principal financial covenant ratios are consistent across the private placement loan notes and revolving credit facility, with a maximum Consolidated Total Net Borrowings (CTNB) to covenant EBITDA of 3.5 times and minimum covenant EBITDA to net finance costs of 3.0 times, tested semi-annually. A reconciliation of the basis of calculation is set out in the table below.

Following the refinancing in December 2018, the debt covenants have been amended to include the impact of IFRS15. The covenants continue to exclude the future impact of IFRS16 on the Group's results.

For the year ended 31 December	2019 £m	2018 £m
Operating profit before exceptional items	125.9	112.4
Remove: Amortisation and impairment of intangibles arising on acquisition	7.5	4.3
Trading Profit	133.4	116.7
Exclude: Share of joint venture post-tax profits	(27.5)	(28.8)
Include: Dividends from joint ventures	25.4	29.7
Add back: Net non-exceptional charges to OCPs	7.2	–
Add back: Depreciation, amortisation and impairment of owned property, plant and equipment and non-acquisition intangible assets	35.8	32.1
Add back: Depreciation, amortisation and impairment of property, plant and equipment and non-acquisition intangible assets held under finance leases – in accordance with IAS17 Leases	5.8	6.8
Add back: Foreign exchange credit on investing and financing arrangements	(0.8)	(0.2)
Add back: Share based payment expense	11.6	14.7
Other covenant adjustments to EBITDA	9.8	–
Covenant EBITDA	200.7	171.0
Net finance costs	21.8	13.9
Exclude: Net interest receivable on retirement benefit obligations	2.1	0.8
Exclude: Movement in discount on other debtors	0.1	1.2
Exclude: Foreign exchange on investing and financing arrangements	(0.8)	(0.2)
Add back: Movement in discount on provisions	(1.2)	(0.5)
Other covenant adjustments to net finance costs resulting from IFRS16	(6.6)	–
Covenant net finance costs	15.4	15.2
Adjusted Net Debt	214.5	173.2
Obligations under finance leases – in accordance with IAS17 Leases	8.9	14.8
Recourse Net Debt	223.4	188.0
Exclude: Disposal vendor loan note, encumbered cash and other adjustments	4.1	2.3
Covenant adjustment for average FX rates	7.6	(8.8)
CTNB	235.1	181.5
CTNB/covenant EBITDA (not to exceed 3.5x)	1.17x	1.06x
Covenant EBITDA/covenant net finance costs (at least 3.0x)	13.0x	11.2x

Net assets summary

As at 31 December	2019 £m	2018 £m
Non-current assets		
Goodwill	671.2	579.6
Other intangible assets	96.5	67.3
Property, plant and equipment	392.6	64.8
Other non-current assets	50.1	51.0
Deferred tax assets	63.9	60.9
Retirement benefit assets	78.3	85.8
	1,352.6	909.4
Current assets		
Inventories	18.3	22.9
Contract assets, trade receivables and other current assets	612.2	551.5
Current tax assets	6.8	7.3
Cash and cash equivalents	89.5	62.5
Total current assets	726.8	644.2
Total assets	2,079.4	1,553.6
Current liabilities		
Contract liabilities, trade payables and other current liabilities	(557.7)	(497.7)
Current tax liabilities	(18.7)	(29.2)
Provisions	(58.4)	(120.1)
Lease obligations	(84.6)	(5.7)
Loans	(56.1)	(21.9)
Total current liabilities	(775.5)	(674.6)
Non-current liabilities		
Contract liabilities, trade payables and other non-current liabilities	(72.7)	(109.9)
Deferred tax liabilities	(26.7)	(21.4)
Provisions	(103.4)	(119.3)
Lease obligations	(285.3)	(9.1)
Loans	(248.9)	(217.6)
Retirement benefit obligations	(24.0)	(14.9)
	(761.0)	(492.2)
Total liabilities	(1,536.5)	(1,166.8)
Net assets	542.9	386.8

At 31 December 2019 the balance sheet had net assets of £542.9m, a movement of £156.1m from the closing net asset position of £386.8m as at 31 December 2018. The increase in net assets is mainly due to the following movements:

- A decrease in provisions of £77.6m. Further details on provision movements is provided below.
- Adjusted Net Debt increased by £41.3m. Further details of these movements are provided in the cash flow and Net Debt sections above.
- An increase in property, plant and equipment of £327.8m, which includes right of use assets with a net book value of £345.3m at 31 December 2019 following the adoption of IFRS16 *Leases*, although this is offset by a combined increase in lease liabilities of £355.1m. Of the total increase in the lease liability, £78.9m is recognised in current liabilities which has contributed to the increase in net current liabilities to £48.7m.
- An increase in goodwill and intangibles of £115.3m and £52.6m respectively as a result of the acquisition of NSBU, offset by movements in exchange rates and amortisation of intangibles charged in the year.

Finance Review continued

Provisions

The total of current and non-current provisions has decreased by £77.6m since 31 December 2018. The movement is predominantly due to:

- A decrease in onerous contract provisions of £65.6m.
- A £19m net release of other provisions excluded from UTP as the provisions related to items created as an exceptional cost.
- £7m net charges on end of contract employee related provisions and other items, none of which were individually material.

Movements in onerous contract provisions since the 31 December 2018 balance sheet date, are as follows:

	Onerous Contract Provisions £m
At 1 January 2019	82.1
Opening adjustment – IFRS16	(13.3)
Charged to the income statement during the year – trading	10.6
Released to the income statement – trading	(9.6)
Utilisation during the year	(53.6)
Unwinding of discount	0.2
Foreign exchange	0.1
At 31 December 2019	16.5

The balance of OCPs at 31 December 2019 was £16.5m (2018: £82.1m). OCP balances are subject to ongoing review and a full bottom-up assessment of the forecasts that form the basis of the OCPs is conducted as part of the annual budgeting process. The net non-exceptional charge to OCPs was £1.0m (2018: £12.8m release) and utilisation was £53.6m (2018: £51.8m).

In 2019, the release from OCPs is reflective of the Group's ability to forecast the final years of contracts which are nearing completion. Additional charges of £10.6m (2018: £3.4m) have been made in respect of future losses on new and existing onerous contract provisions to reflect the updated forecasts and releases of £9.6m (2018: £16.2m) as settlements are agreed and contracts near completion. The Group undertakes a robust assessment at each reporting date to determine whether any individual customer contracts, which the Group has entered into, are onerous and require a provision to be recognised in accordance with IAS37.

The Group operates a large number of long-term contracts at different phases of their contract life cycle. Within the Group's portfolio, there are a small number of contracts where the balance of risks and opportunities indicates that they might be onerous if transformation initiatives or contract changes are not successful. The Group has concluded that these contracts do not require an onerous contract provision on an individual basis. Following the individual contract reviews, the Group has also undertaken a top down assessment which assumes that, whilst the contracts may not be onerous on an individual basis, as a portfolio there is a risk that at least some of the transformation programmes or customer negotiations required to avoid a contract loss, will not be fully successful, and it is more likely than not that one or more of these contracts will be onerous. Therefore, in considering the Group's overall onerous contract provision, the Group has made a best estimate of the provision required to take into consideration this portfolio risk. As a result, the risk of OCPs and the monitoring of individual contracts for indicators remains a critical estimate for the Group. The amount recognised in the year is £6.2m at the Trading Profit level within the Corporate costs segment, which after this charge is therefore £51.7m (2018: £40.1m).

Acquisitions

On 1 August 2019, the Group acquired the Naval Systems Business Unit and a small number of related contracting entities (collectively, 'NSBU'), from Alion Science & Technology Corporation. Serco acquired the net assets of the business as well as the Alion Canada and Alion IPS legal entities. The acquired business contributed £109.8m of revenue and £7.2m of operating profit before exceptional items to the Group's results during the year to 31 December 2019. As a result of the acquisition, Alion Canada, now known as Serco Canada Marine, and Alion IPS are 100% owned, indirect subsidiaries of Serco Group plc.

NSBU is a leading provider of naval design, systems engineering, as well as production and lifecycle support services to the US Navy, US Army and Royal Canadian Navy. The combined business will be a top tier supplier of services to the US Navy, and increases our exposure to US Navy fleet expansion, which is one of the fastest-growing areas of public procurement. The US Navy has announced plans to increase the fleet from 280 to 355 ships by 2034, and we see a long-term and growing demand for the capabilities that the combination of Serco and NSBU will be able to provide.

The total annual revenue of NSBU in 2020 is expected to be around \$370m (£285m) and the estimated operating profit before exceptional items, including an appropriate allocation of charges for shared support services and fully allocated overheads, of around \$27m (£20m).

IFRS16

A new leasing standard, IFRS16 Leases was adopted by the Group with effect from 1 January 2019. IFRS16 requires the recognition of a lease liability and corresponding right of use asset for any lease not covered by a low-value or short-term exemption.

The following table illustrates the impact which IFRS16 has had on the results for the year ended 31 December 2019 for key Alternative Performance Measures. This has been provided to assist the reader in understanding the business performance outside of changes to accounting standards.

No restatement has been made to the results for the year ended 31 December 2018 in accordance with the modified retrospective approach to transition adopted by the Group.

	As reported 31 December 2019	Impact of IFRS16 31 December 2019	APM pre-IFRS16 31 December 2019	31 December 2018
Underlying Trading Profit (£m)	120.2	1.2	119.0	93.1
Trading Profit (£m)	133.4	2.3	131.1	116.7
Operating Profit (£m)	102.5	2.3	100.2	80.5
Net Finance Costs (£m)	21.8	6.6	15.2	6.4
Profit Before Tax (£m)	80.7	(4.3)	85.0	74.1
Diluted Underlying EPS (p)	6.16	(0.46)	6.62	5.21
Net Debt (£m)	584.4	360.9	223.5	188.0

Serious Fraud Office Investigation

On 4 July 2019, Serco Geografix Ltd, a wholly owned subsidiary, received judicial approval of a Deferred Prosecution Agreement (DPA) with the UK Serious Fraud Office (SFO). This ruling concluded the SFO's investigation into Serco companies as announced in November 2013. As part of the DPA, the Group has paid a fine of £19.2m during the year and also paid SFO investigation costs of £3.7m.

Claim for losses in respect of the 2013 share price reduction

The Group has received a claim seeking damages for alleged losses following the reduction in Serco's share price in 2013. The merit, likely outcome and potential impact on the group of any such litigation that either has been or might potentially be brought against the group is subject to a number of significant uncertainties and, therefore, it is not possible to assess the quantum of any such litigation as at the date of this disclosure.



Angus Cockburn

Group Chief Financial Officer
25 February 2020

Risk Management

Risk Management

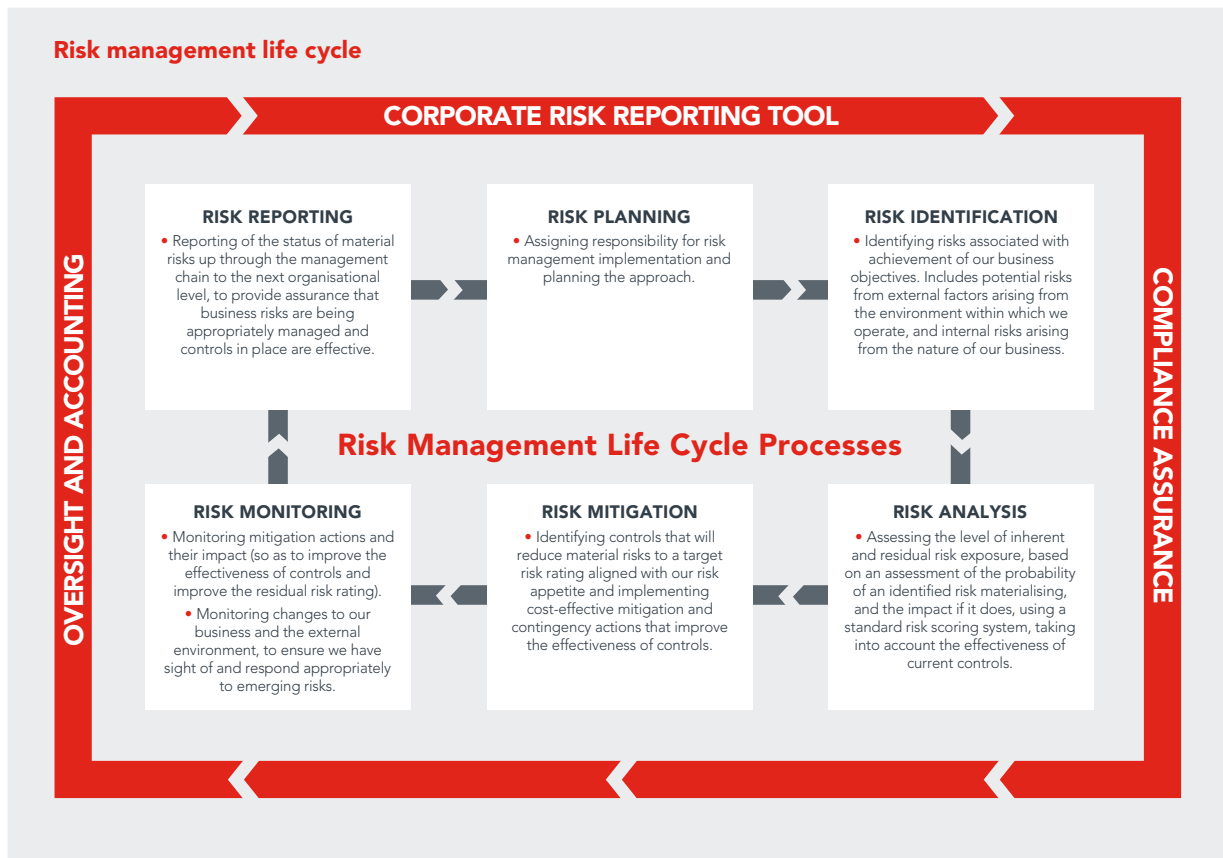
Our risk management process does not eliminate risk, it identifies risks, thoroughly understands them and their potential impact, and devises strategies for mitigating and managing them.

In common with other large businesses which operate internationally, Serco has to manage and mitigate a large number of potential risks. As a business which serves Governments, we have greater exposure than many to some potential risks such as changes in Governments, but less than many to other risks such as Brexit, as we import and export very little across borders. As a business, we take risk management extremely seriously, and invest significant effort into identifying and managing risks.

Our business risks can be categorised and described in many different ways, but at the highest level can be thought of as external – essentially those risks that relate to the landscape in which we do business – and internal risks – those which arise as a consequence of the way we deliver our services. In the former, we would put political risks such as Brexit, changes in Governments and regulation; in the latter we would put risks such as cyber security, health and safety and growing our profits in a sustainable way. Environmental, Social and Governance

(ESG) risks, which we acknowledge are of a concern to many stakeholders, span both internal and external risks, by virtue of the fact that the external risk of regulation impinges on our internal risks of the way we run our business. Whilst Governance and Social risks apply to all our businesses, our Environmental footprint varies enormously between our businesses.

In the following pages we describe in considerable detail how we think about risk and manage it.



Risk management response

We recognise the challenge created by both the external and internal risks outlined and our response to them is captured in the Principal Risks and Uncertainties on page 62 and in the Strategic Report on page 18. Our sustainability commitments and approach to ESG matters are documented in the Corporate Responsibility Section of the Strategic Report on page 91 and in our full Corporate Responsibility Report which is available on the Company's website.

Although our core risk processes and risk lifecycle have remained fundamentally unchanged in 2019, steps have been taken to strengthen the Group Enterprise Risk Management function through the bringing together of Risk, Compliance Assurance, Insurance and Business Continuity teams and by strengthening our risk management capability.

Looking forward to 2020, our priority will be the continued evolution of an Enterprise Risk Management strategy. Our initial focus is to drive improved consistency across each of the divisions, deliver refreshed standards, policies and training and to make improvements to our risk management tools.

Risk management approach

Our risk management process seeks to identify, understand, mitigate and manage risks at all levels of our business, reflecting the nature of the activities being undertaken and the level of control considered necessary to protect our interests and those of our stakeholders.

We undertake a bottom-up review of risks, with our Business Units identifying the main threats to achievement of their objectives, documenting and analysing their potential impact, and defining clear actions to reduce the likelihood of those risks materialising and/or the financial impact if they should still occur. This exercise is completed using the Serco risk management lifecycle process which is mandated throughout the company to ensure a consistent approach to identifying, analysing, monitoring and reporting risks and to provide assurance that the risk mitigation in place is effective and appropriate.

The Business Unit risks are consolidated and reported to Divisional leadership teams in a check and challenge capacity to ensure that risks on the Business Unit risk registers accurately reflect the concerns of local senior leadership.

Once approved, the Divisional Risks are reviewed by the Group ERM team and help inform the principal risk updates which are presented quarterly to the Group Risk Committee ("GRC"). The Board are updated after each meeting. The Executive Committee reviews risk themes regularly throughout the year and conducts an annual risk workshop that includes a review of the principal risks as well as a review of emerging risk topics and their impact on our risk profile.

For our principal risks we have Subject Matter Experts (SMEs) and a nominated Executive Committee sponsor allocated to each, supporting their review and management. Detailed reviews of our principal risks are carried out as part of the GRC reporting schedule, as well as divisional "deep-dives" delivered by our divisional CEOs.

Each of our principal risks has an appetite statement to determine the nature and amount of risk that the Group is willing to accept as well as informing our decision-making as to the level of resource required for mitigation. These statements are aligned to our Values, Code of Conduct and other ethical requirements to support and drive the right risk culture within the Group.

Principal Risks and Uncertainties

Summary of principal risks and uncertainties

Principal risks, as described below, have been reviewed by the Executive Committee, GRC and the Board. Each risk is classified as a strategic, financial, operational, people, hazard, or legal and compliance risk. The risks are described on the following pages, together with the relevant strategic business objectives, key risk drivers, the Group-wide material controls which have been put in place to mitigate principal risks and the mitigation priorities to improve the effectiveness of the controls. We have included the residual risk trend indicator for each risk, together with a brief commentary to contextualise these trends.

Principal risks are considered over the same three-year timeframe as the Viability Statement set out on page 74, which takes account of the principal risks in its assessment.

We have removed the Failure to deliver expected benefits from transformation risk from our principal risk profile to reflect good progress made and in recognition of the benefits returned to the organisation. In addition, we have included a new people risk acknowledging the value we place on our workforce and the importance of succession planning for business-critical roles on both the Executive Committee and across the business. Particular focus has been given to the management and oversight of our Health and Safety priorities, currently captured under Catastrophic risk, to ensure that they retain appropriate visibility and priority.

We have also assessed our external and internal environment to anticipate both risks and opportunities and to increase our ability to pre-empt, convert or exploit them. As part of this review we continue to monitor the potential implications of the UK's withdrawal from the European Union ("Brexit") and its impact on Serco.

Reiterating our position outlined in our 2018 Annual Report, we do not believe that Brexit will directly impact Serco to a material extent. This is based on regular assessment and review of our UK and EU contracts, our supply chain, workforce requirements and regulatory obligations. By operating many contracts across diverse geographies outside of Europe, Serco has a natural hedge from material Brexit risks that may arise.

In addition to the principal risks and uncertainties already identified, there may be other risks, either unknown, or currently believed to be immaterial, which could turn out to be material. These risks, whether they materialise individually or simultaneously, could significantly affect the Group's business and financial results.

Summary of principal risks

Strategic risks	Failure to grow profitably	Failure to manage our reputation	
Financial risks	Financial control failure		
Operational risks	Major information security breach	Contract non-compliance, non-performance or misreporting	Failure of business critical partner, supplier or sub-contractor
People risks	Failure to act with integrity	Failure to attract, engage and retain key talent	
Hazard risks	Catastrophic incident		
Legal and compliance risks	Material legal and regulatory compliance failure		

 Winning good business
  Executing brilliantly
  A place people are proud to work
  Profitable and sustainable

 Increasing risk
  Decreasing risk
  No change
  New
 The trend indicator depicts the trend of our residual risk rating internally over the course of 2019.


STRATEGIC RISKS

Failure to grow profitably

Failure to win material bids or renew material contracts profitably, or a lack of opportunities in our chosen markets, will restrict growth and may have an adverse impact on Serco's long-term financial viability.

Our business is linked to changes in the economy, fiscal and monetary policy, political stability and leadership, budget priorities, and the perception and attitude of governments and the wider public to outsourcing, which could result in decisions not to outsource services or lead to delays in placing work.

Market conditions continue to be challenging in a number of our sectors and geographies, though our diversity and focus on business development has enabled us to win important re-bids and gain sufficient new business to stabilise our revenue. With a reasonable pipeline of opportunities ahead and our access to a wide variety of markets, we consider this risk to be stable.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>External factors reducing the pipeline of opportunities – political and policy changes in our markets (such as changes in policy about the private provision of public services, changes following elections in federal or state governments, or decisions such as Brexit) may make it more difficult for us to win in some geographies or result in fewer opportunities.</p> <p>Failure to be competitive – lack of appropriate references and value propositions for the markets in which we compete, or an insufficient understanding of our competitive environment may put us at a disadvantage to our competitors.</p> <p>Inability to meet customer and solution requirements during design, implementation and delivery – executing our bids in an unsatisfactory manner by not understanding the strategic needs of the customer, mispricing bids, developing inefficient or non-innovative solutions and misunderstanding risks, may prevent us from achieving our growth ambitions.</p> <p>Ineffective business development – poor account management, market shaping, proposition development and visibility of pipeline opportunities may affect our ability to set and meet targets for growth as well as drive process improvements.</p>	<ul style="list-style-type: none"> Serco Group and Divisional Strategy including annual strategy reviews, ensuring focus on and resource allocation to specific markets and geographies with the greatest growth potential. Investment Committees. Serco Management System ("SMS"). Sector-specific Centres of Excellence ("CoEs") and Value Propositions. Serco Institute to develop thought leadership and innovation for our markets. Business Life cycle Review Team ("BLRT") Process. Pipeline and Business Development ("BD") spend reviews to ensure efficient deployment of resources. Divisional Performance Reporting ("DPR") process. Annual Performance Reviews, Talent Reviews and Succession Planning processes. 	<ul style="list-style-type: none"> Review pipeline opportunities to ensure all market activity is accurately captured and that budgets are allocated accordingly. Review portfolio for new attractive organic expansion areas. Continue to improve leveraging of Serco best practice and innovation, as well as refine bid solution processes and SME resources to ensure our propositions remain competitive. Continue to adopt a robust qualification process so that Business Development resources are focused on the most attractive opportunities. Continued focus on account management for major bids, as well as re-bids, to ensure existing clients are experiencing good service from Serco and fully understand the value and quality of our services. Review and consider appropriate inorganic growth opportunities as the market continues to develop. 	

Principal Risks and Uncertainties continued

STRATEGIC RISKS CONTINUED

Failure to manage our reputation

Failure to manage our reputation will mean that customers will be less likely to give us new business or renew existing business. It will also impact our ability to attract and retain high-quality people and may lead to reduced share price and the related consequences of a reduced valuation of the business.

We have maintained a continued focus on Operational Excellence and have made a positive contribution to the debate around public sector outsourcing.


Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Failure to clearly define what Serco stands for and how we wish to be seen – may result in inconsistent communication and misunderstanding by our key stakeholders.</p> <p>Not understanding our customers’ and stakeholders’ expectations – may result in a failure to recognise changes in our business environment or our customers’ priorities.</p> <p>Insufficient focus on articulating and evidencing the benefits of private provision of public services – may result in an imbalanced public discourse and a misunderstanding of what Serco contributes to customers and service delivery.</p> <p>Failure to manage incidents appropriately – may result in us not responding in a collaborative manner with our customers or not communicating in an open and ethical manner to key stakeholders.</p>	<ul style="list-style-type: none"> • Serco Values clearly defined and understood. • Group Reputation, Brand and Communication Standard. • Customer and stakeholder relationship, communication and engagement programmes. • Proactive engagement with the media and continual media monitoring. • Media training and understanding of reputational issues for senior management. • Incident management processes and crisis management plans. 	<ul style="list-style-type: none"> • Continual refinement and improvement of existing communication and marketing controls and approaches. • Continued and heightened efforts to explain and evidence the benefits and innovations that Serco brings to the provision of public services. • Serco Institute to trial and publish innovative thinking in public service delivery. 	

FINANCIAL RISKS

Financial control failure

Financial control failure may result in: an inability to accurately report timely financial results and meet contractual financial reporting obligations; a heightened risk of error and fraud; poor quality data leading to poor business decisions, or an inability to forecast accurately; the failure to create a suitable capital structure, and an inability to make critical financial transactions, leading to financial instability, potential business losses, and negative reputational impact.

During 2019 the new finance operating model within our UK and AsPac Divisions was being embedded, and as a result of progressing through three reporting periods with the transformed model being operational, management believe that the risk of financial control failure has reduced from the higher levels which existed during the transformation phase. Work continues to ensure that the new operating model is sustainable and effective, and the Company is working closely with its third-party service provider to ensure this is the case.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Not setting the right tone from the top – if we do not set the right tone from the top, we may fail to embed finance policy, processes and controls.</p> <p>Poor financial processes – if processes are poorly designed, then inaccuracies and fraud may occur.</p> <p>Inadequate financial controls within the business – if controls are inadequate, we may fail to provide adequate protection from sabotage of systems, fraud and error.</p> <p>Challenges of new finance operating model – poor service delivery may lead to an unstable financial control environment due to an increased workload on the Serco finance community.</p>	<ul style="list-style-type: none"> • Group Governance and Finance strategy. • Serco Management System (“SMS”) – finance processes and controls. • Standardised reporting, forecasting and financial processes. • Standardised financial systems and data structures. • Skilled and adequately trained finance staff. • Governance and review procedures associated with managing the quality of finance services delivered by the Company’s third-party supplier. 	<ul style="list-style-type: none"> • Continue to embed transformed new finance operating model and monitor delivery and risks of outsourced Finance Centre of Excellence. • Continuously improve forecasting and reporting processes and outputs to deliver better insight into contract operations. • Deliver global finance process improvement and efficiency through automation and robotics. • Further embed billing assurance programme. • Ensure talent is retained within the finance function through initiatives such as opportunities for personal development and improved training. • Continuously improve the Company’s financial assurance programme. 	


Principal Risks and Uncertainties continued

OPERATIONAL RISKS

Major information security breach

A major information security breach resulting in the loss or compromise of sensitive information (including personal or customer) or wilful damage resulting in the loss of service, causing significant reputational damage, financial penalties and loss of customer confidence.

Whilst our ongoing mitigation measures continue to deliver clear benefits, the external threats continue to evolve in complexity and sophistication. In addition, the GDPR legislation has introduced unprecedented scrutiny and associated fines in relation to data protection issues. Serco has continued to implement robust internal controls and process improvements resulting in a steady state view of the overall risk.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Non-compliant systems – if our systems are non-compliant with Serco policies and standards and regulatory requirements for the protection of sensitive information, we are susceptible to breaches and penalties.</p> <p>Non-compliance with policies and standards – if staff do not comply with Serco policies and standards, then they may accidentally release sensitive information to third parties.</p> <p>Vulnerability of systems and information – if we do not identify sensitive information and protect and test the vulnerability of our systems, then we are potentially exposed to a breach.</p> <p>Unauthorised use of systems – if we do not implement effective personnel vetting and access restriction processes and controls, then unauthorised use of our systems may occur.</p> <p>Inadequate incident monitoring and response – if we do not monitor our systems and remediate and repel attacks, then we may fail to minimise the impact of any breach.</p> <p>Increased regulatory scrutiny – if we do not manage our data obligations and educate our workforce then we may be in breach of GDPR.</p>	<ul style="list-style-type: none"> Enterprise Architecture Boards & Solution Review meetings. Serco Management System ("SMS"). IT security infrastructure, processes and controls. Privileged User Management and Two Factor Authentication for our centralised managed systems. External assessments and scenario based cyber security testing. Third-party due diligence checks for key suppliers. Active monitoring by our Security Operations Centres and Computer Security Incident Response Team processes. Standardised HR processes. Cyber security awareness training part of our Serco Essentials training programme. Regular Phishing and Executive Committee training exercises. 	<ul style="list-style-type: none"> Retooling for our Security Operations Centres to maintain effective risk identification. Continued routine vigilance and proactive vulnerability identification coordinated through our Security Operations Centres. Continued use of global key security risk indicators to support mitigation priorities. Leveraging Cloud adoption to ensure standardised control mechanisms. 	

OPERATIONAL RISKS CONTINUED

Contract non-compliance, non-performance or misreporting

Failure to deliver contractual requirements or to meet agreed service performance levels and report against these accurately may lead to significant financial penalties, legal notices, onerous contract provisions or, ultimately, early termination of contracts.

The reporting structure, the systems and the monthly business performance review which is conducted at contract, Business Unit and Division level across our business provides a rigour that allows senior management visibility of contract performance or compliance issues early.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Poor understanding of contract obligations – may result in staff failing to acknowledge and act on obligations or a failure to provide adequate resources to deliver against contractual obligations.</p> <p>Poor systems/IT – unreliable or incorrectly configured systems may result in late or incorrect data being produced.</p> <p>Lack of process and controls – poorly documented or poorly communicated processes may lead to deliberate or unintentional misreporting or contract non-compliance.</p> <p>Ineffective assurance and human error – insufficient oversight and assurance of contract performance, could lead to contract non-compliance, non-performance or a misreporting of performance.</p> <p>Poor leadership and culture – if our leaders do not align with our Values and staff feel under pressure to meet challenging operational targets and/or performance indicators, then deliberate misreporting may occur.</p>	<ul style="list-style-type: none"> • Contract Management Application (“CMA”). • Contract governance including Monthly Contract Reviews, Business Unit reviews and Divisional Performance Reporting (“DPR”) process. • Business Life cycle Review Team (“BLRT”) process. • Serco Management System (“SMS”). • Leadership Development Programme and Contract Manager training. • Ethics training programme. • Communication of Our Values and Code of Conduct. • Speak Up process (“Ethicspoint”). 	<ul style="list-style-type: none"> • Continued Contract Management training (Global and Divisional). • Ongoing development and continued exercise to roll out and embed use of contract performance dashboard (“Gauge”). • Continued process improvement activity to drive consistent approach to risk assessment. • Continued execution of divisional operational excellence improvement plans. • More in depth contract KPI reviews. • Ongoing and continued ethics, business conduct and compliance training. 	


Principal Risks and Uncertainties continued

OPERATIONAL RISKS CONTINUED

Failure of business-critical partner, sub-contractor or supplier

As a result of the failure of a business-critical partner, sub-contractor or supplier to deliver and/or perform to the required standard, Serco may be unable to meet its customer obligations or perform critical business operations which could result in a financial, operational or reputational impact on Serco.

A programme for quantifying our supplier exposure and establishing appropriate mitigation actions was initiated with an extensive exercise identifying the business-critical suppliers across all divisions in 2018. This programme has continued to mature through 2019 with delivery of targeted reviews across the business.


Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Ineffective procurement and supply chain governance – resulting from non-compliance to standards and lack of consequence management.</p> <p>Identification of significant suppliers – a failure to identify our critical suppliers may result in lack of focused oversight and understanding of the impacts on Serco should they fail to deliver our customer critical services.</p> <p>Limited oversight – resulting in poor sourcing, contracting and monitoring of business-critical business partners, sub-contractors and suppliers as well as the potential for engaging in ineffective or onerous contracts with suppliers or sub-contractors.</p> <p>Lack of resilience in the supply chain – exposing us to potential service provision or financial losses should they have ineffective Business Continuity and Disaster Recovery plans.</p>	<ul style="list-style-type: none"> • Serco Management System (“SMS”) – Procurement policy, standards and procedures. • Sourcing standards and procedures in each region. • Identification and maintenance of business-critical partner, sub-contractor and supplier list. • Contracts with appropriate Key Performance Indicators /Service Level Agreements etc. • Financial and ethical health checks and monitoring in the UK, North America and AsPac. 	<ul style="list-style-type: none"> • Plan to roll out enhanced processes to critical suppliers including contract compliance, risk management and supplier performance management. • Improve auditing of business-critical sub-contractor and supplier business continuity plans. • Ongoing monitoring of impact of Brexit on supply chain and working with the Cabinet Office on risk mitigation and contingency against critical goods and services. 	

PEOPLE RISKS

Failure to act with integrity

Being found to have engaged in a significant corrupt or dishonest act (bribery, fraud, misreporting, cheating and lying) leads to customers being reluctant to do business with such organisations. Such behaviour might arise through the actions of rogue employees or as a result of pressures individuals feel they are being placed under. Such acts might lead to: the loss of existing business; restrictions on our ability to bid or win new business; our ability to attract high-quality people or partners; or may impact shareholder, investor and financial institutions' confidence in Serco.

Building on work in 2018 we have rolled out improved ethics training, strengthened our internal capability through professional qualifications and reinforced our strong tone at the top.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Failure to communicate – if we do not define and communicate our Values and expected standards adequately, our staff and third parties will fail to understand these, which may result in inappropriate leadership behaviour and low engagement with our values.</p> <p>Our ways of working do not align with our Values – staff or third parties being unaware of and/or not reflecting our Values may result in poor decision-making, unacceptable business conduct, and unethical or illegal behaviour bringing our operations into disrepute.</p> <p>Direct or indirect contribution to human rights abuse – staff either directly or indirectly contributing to human rights (including slavery and forced labour) abuses may result in a breach of laws/regulations.</p>	<ul style="list-style-type: none"> • Top-level commitment/tone from the top. • Strong, meaningful and understood Values. • Code of Conduct. • Corporate Governance with oversight by the Corporate Responsibility Committee (“CRC”). The CRC has explicit responsibility to oversee how we embed our values across the business. • Delegated Authority Matrix (“DAM”). • Serco Management System (“SMS”). • Financial controls and processes, with segregation of duties for core financial controls. • Gifts and Hospitality process and registers. • Risk management procedures. • Third-party due diligence. • Leadership Academy. • People development and remuneration. • Corporate investigations. • Speak Up process (“Ethicspoint”). 	<ul style="list-style-type: none"> • Delivery of the Deferred Prosecution Agreement project plan with oversight from DPA project steering group. • Formal separation of Group HSE from Ethics function. • Implementation of improved divisional ethics and compliance risk management processes. • Further development of Speak Up dashboard and reporting. • Embed use of Conflict of Interest registers. • Refinement of divisional ethics and compliance risk assessments. • Implementation of improved due diligence processes. • Continued refresh of Serco Essentials training. • Evaluate effectiveness of internal culture assessment processes. 	

Principal Risks and Uncertainties continued

PEOPLE RISKS CONTINUED

Failure to attract, engage and retain key talent

It is our ambition to be one of the best managed companies in the sector and, notwithstanding our framework of people processes, systems and controls, there is a risk that we are unable to attract, engage and retain an appropriately sized, qualified and competent workforce and Management Team. This would restrict Serco's ability to deliver on its customer obligations, execute its strategy and achieve its business objectives whilst driving employee pride in the organisation.

This risk specifically includes consideration of key people reliance in our leadership and executive teams including succession planning for our senior management team and other business critical roles.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Development – failure to develop leadership and management capability resulting in regretted attrition.</p> <p>Talent & Succession – failure to identify and develop talent and, as a result, talent pools do not support succession planning.</p> <p>Engagement – failure to engage with and listen to staff, particularly those in critical roles.</p> <p>Reward – remuneration packages fail to keep pace with external markets.</p> <p>Recruitment – failure to attract and recruit the right people with appropriate skills and experience leads to early attrition.</p> <p>Attraction – failure to attract suitable and diverse candidates of the right calibre with the required experience/qualifications.</p>	<ul style="list-style-type: none"> • Talent Management & Succession Processes. • Leadership capability development. • Targeted retention arrangements. • Critical Resource Planning. • Annual Performance Management process. • Exit Interviews. • Viewpoint survey and action plans. • Technology to support recruitment, onboarding and induction. • Structured and targeted training and development processes. • Annual engagement survey to all employees. 	<ul style="list-style-type: none"> • Continued development of detailed succession plans for all identified business critical roles. • Take action on areas of improvement identified in 2019 engagement survey. • Continue to improve understanding of local employment markets. • Complete benchmarking activity to ensure market competitive reward packages. • Continue to monitor channels to access external talent in chosen markets. • Ongoing use and analysis of exit interviews for senior regretted leavers. • Continued use of Colleague Connexions. 	

HAZARD RISKS

Catastrophic incident

An event (incident or accident) as a result of Serco's actions or failure to effectively respond to an event that results in multiple fatalities, severe property/asset damage/loss or very serious long-term environmental damage.

Management of our health, safety and environmental commitments remains a core priority and so whilst the nature of this risk is broad and focuses on a significant event it is important to highlight that it also includes mitigations to secure the safety and wellbeing of every employee, service user and relevant third party and to execute our duty of care obligations.

Each Division is continuing to assess risks at a contract level to ensure that all relevant material risks have been identified and to assess and assure mitigations, including insurance cover, are appropriate. Contracts considered inherently high risk have been reviewed. Significant work has also been completed in the review of and testing of business continuity plans.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Factors resulting in unsafe conditions – a lack of identification and assessment of risks, sudden equipment failure or inadequate security may result in poor mitigation of and/or response to a serious event.</p> <p>Ineffective or inadequate policies, standards and procedures – if procedures/systems are not aligned with industry standard or customer expectations, an unacceptable level of safety management may occur.</p> <p>Lack of capability and experience – if resources lack current competency in specialist/regulatory requirements this may result in a serious event.</p> <p>Lack of safety cultural alignment – a safety culture which does not reflect our Values and fails to engage our staff to work safely may result in a serious event.</p> <p>Insufficient safety management oversight – devolved compliance of regulations to sector-specific Subject Matter Experts without appropriate safety management oversight may result in safety management systems which are not fit for purpose.</p> <p>Inadequate response to a catastrophic event – if our contingency plans do not provide an adequate response to an event then escalation of an event or prolonged disruption may occur.</p>	<ul style="list-style-type: none"> • Serco (Health, Safety and Environmental) HSE Strategy. • Effective and engaged safety culture. • Regular safety communications and maintenance of safety awareness. • Competency-based recruitment programme. • Role description and competency definition. • Serco Essentials training. • Safety training and individual development plans and processes based on role and operational risk. • Access to subject matter expertise. • Safety Management System (policy and procedures). • Planned and preventative inspections, maintenance and repair programmes. • Third-party ethical due diligence process. • Assure – Serco's incident and compliance reporting system. • Incident/Near-miss investigations. • Business Life cycle Review Team ("BLRT") process. • Divisional Performance Reporting ("DPR") process. • Crisis and incident emergency response plans and testing. • Business Continuity plans and testing. • Risk transfer via insurance where appropriate. 	<ul style="list-style-type: none"> • Continue to embed updated health and safety strategy. • Continue to embed 'just' culture • Deliver 2020 high visibility safety campaign in all divisions. • Maintain divisional safety tours and safety moments. • Formal split of Group HSE from Ethics function and creation of global Head of Health & Wellbeing role to drive wellbeing agenda and to ensure the Safety element of this risk receives appropriate focus at a corporate level. • Continued training in insurance and contractual risk management. • Complete second phase controls review and alignment of insurance. • Review levels and adequacy of compliance assurance. 	

Principal Risks and Uncertainties continued

LEGAL AND COMPLIANCE RISKS

Material legal and regulatory compliance failure

Failure to comply with laws and regulations may cause significant loss and damage to the Group including exposure to regulatory prosecution and fines, reputational damage and the potential loss of licences and authorisations, all of which may prejudice the prospects for future bids. Defending legal proceedings may be costly and may also divert management attention away from running the business for a prolonged period. Uninsured losses or financial penalties resulting from any current or threatened legal actions may also have a material adverse effect on the Group.

Various laws and regulations that apply across the business continue to be subject to increased focus and attention, including Anti-bribery and Corruption laws, Market Abuse Regulation, Data and Privacy laws, Modern Slavery, Trade Compliance and Human Rights.

Key risk drivers:	Material controls:	Mitigation priorities:	Risk trend:
<p>Lack of governance and oversight – may result in a failure to identify potential or actual legal or regulatory breaches resulting in a failure to respond appropriately or confirm compliance with legal and regulatory requirements.</p> <p>Failure to comply with the SMS and contractual obligations – may result in compliance failures for Group-wide material legal and regulatory requirements.</p> <p>Failure to identify and respond to material changes in legal and regulatory requirements, including Brexit – complex and emerging new laws may result in key subject matter experts within the business not remaining up to date and failure to comply with material legal and regulatory obligations.</p> <p>Lack of awareness by employees of the legal and regulatory requirements placed upon them and the business – may result in lack of identification and subsequent compliance to requirements.</p> <p>Inadequate provision of systems and tools – may result in ineffective methods to support the management and reporting of legal and regulatory compliance.</p> <p>Legal or regulatory compliance failure by a third-party supplier/agent/partner – may result in Serco being held responsible for their failure under customer contracts.</p> <p>Class action litigation and increasing regulatory fines – particularly in relation to data privacy, employment/pensions.</p> <p>Compliance with SFO DPA obligations</p>	<ul style="list-style-type: none"> • Automated alerts on material legal and regulatory obligations and changes. • Legal and contracts experts aligned to various specialist areas across the business. • Investment Committee and Business Life Cycle Review Team (“BLRT”) bid process and governance. • Third-party ethical and general due diligence on all suppliers. • Serco Management System (“SMS”) including various policies and operating procedures guiding and regulating conduct. • Case management software and analytics. • Legal training. • Serco Essentials training. • External and Internal audits. • Compliance assurance processes and procedures. • Regular reporting to Board and Executive Committee on legal issues and new laws across the Group. • Speak Up process and case management system (“Ethicspoint”). • EU-Exit Working Group reviewing Brexit related risks. • Oxford Saïd Business School Senior Management and Contract Director training on legal and contract issues and best practice. • Group and Divisional Standard Operating Procedures. 	<ul style="list-style-type: none"> • Delivery of Deferred Prosecution Agreement project plan with oversight from DPA project steering group. • Horizon scanning on key potential new laws and regulations, including Brexit. • Greater use of data and trend analysis to inform Key Risk Indicators. • Embedding risk-based third party due diligence. • Improve review of key controls within SMS as the basis for ongoing compliance assurance. • Continuing development of Serco Essentials training programmes. • Continue and improve key contract and compliance assurance reviews on legal compliance. 	

SFO investigation

Our 2018 Annual report documented the ongoing investigation by the UK Serious Fraud Office ("SFO") which was announced in November 2013. This investigation concluded on 4 July 2019 when Serco Geografix Ltd ("SGL"), one of the subsidiaries of Serco Group plc ("Serco", "Serco Group" or "the Group"), entered into a Deferred Prosecution Agreement ("DPA") with the SFO following the full cooperation with the SFO's investigation.

Serco Geografix Ltd has taken responsibility under the terms of the DPA for three offences of fraud and two of false accounting committed between 2010 and 2013 related to the reporting to the UK Ministry of Justice ("MoJ") of the levels of profitability of Serco's Electronic Monitoring (EM) contract. These issues were reported by Serco to the SFO and the MoJ in November 2013. SGL paid a fine of £19.2m together with £3.7m related to the SFO's investigation costs. The DPA lasts for three years until July 2022. The fine reflected a discount of 50% as a result of Serco's self disclosure of the conduct, as well as its significant and substantial cooperation with the investigation. No compensation or disgorgement of profit were payable to the MoJ because the SFO agreed that Serco had already fully compensated the Department in respect of the offences as part of a £70m settlement paid by Serco to the MoJ in December 2013.

The SFO recognised the significant steps Serco took to reform itself, including the thorough implementation under independent supervision of a comprehensive Corporate Renewal Programme approved by the UK Government. This programme included over 80 actions and initiatives, and included rewriting its system of management control, as well as strengthening its bidding, contract management, internal audit and management assurance processes. The DPA is accompanied by an undertaking by SGL's ultimate parent entity, Serco Group plc, with the SFO ("the Undertaking"), to guarantee SGL's performance of its obligations including payment of the fine, full cooperation with the SFO and other foreign and domestic law enforcement and regulatory authorities, self-reporting of any evidence or allegation of serious or complex fraud, and ethics and compliance programme enhancements of a type largely identical to those agreed to by SGL as well as agreeing to report annually to the SFO and the Cabinet Office on the Group's ethics and compliance programme.

We are focused on the delivery of our obligations under the DPA and Undertaking. Board oversight of our DPA and Undertaking commitments has been strengthened and both the Board and GRC regularly review the DPA plan.

Viability Statement

In accordance with provision 31 of the UK Corporate Governance Code published by the Financial Reporting Council in July 2018, the Directors have assessed the prospects of the Group over the three year period to 31 December 2022.

The Directors believe that a three year period is appropriate since it reflects the fact that:

- the Group has limited visibility of contract bidding opportunities beyond three years.
- approximately 52% (2018: 50%) of the current year revenue relates to contracts where the contract term potentially comes to an end within three years.

The strategic plan set out in March 2015 significantly changed the direction of the Group as explained in previous shareholder communications and the Group has prepared an updated five-year business plan each year to establish whether it is on target to achieve its long term strategic goals. However, the financials for the last three years of this period are largely extrapolations of key assumptions used in the budget process. Given the difficulties of forecasting over a long time period it would be inappropriate to draw definitive conclusions on the future prospects of the Group and challenging to develop appropriate sensitivities and mitigation strategies. Therefore, whilst the five year business plan continues to be developed, its nature is more akin to a strategic goal rather than a forecast based on known assumptions; this makes assessing the longer term viability of the Group a challenge.

Good progress continues to be made on implementing the Group's strategy. However, market conditions remain challenging in the UK, the Group's largest market, and this has acted as a drag on the Group's estimate of the weighted average rate of market growth in the medium term. We have previously highlighted the importance of the external market on our ability to win new contracts. Whilst we expect to continue to grow revenue and profit over the next two year Budget period based on recent new contract wins and order book, growth thereafter is more difficult to assess given the nature of the market. However, we will continue to focus on margin improvement through improved efficiency whilst focusing business development investment on the most attractive market opportunities.

During the period of assessment, £121.9m of the Group's US Private Placement loan notes and the acquisition facility of £45m mature. The long term forecasts supporting this statement assume that if these are not refinanced there is still sufficient liquidity headroom. However the intention is for these to be refinanced with long term funding. The Group refinanced its bank debt at the end of 2018 and this new five year funding facility will provide the financial platform to continue to invest in the growth of the Group. The Group's financial position has also been enhanced by its improved ability to generate Free Cash Flow from its growing profits and the significant reduction in cash outflow from 2020 associated with historic loss making contracts.

The Board and the Group Risk Committee continue to monitor the principal risks facing the Group, including those that would threaten the execution of its strategy, business model, future performance, solvency and liquidity. Management and mitigations of those principal risks have been taken into consideration when assessing the future viability of the Group. The Group's principal risk review, as set out on pages 62 to 73, considers the impact of these principal risks and the mitigating controls that are in place.

In assessing the prospects of the Group over the 3 year period, the Directors have also considered the Group's current financial position as well as its financial projections in the context of the Group's debt facilities and associated covenants. These financial projections are based on a bottom up Budget exercise for 2020 and 2021 which has been approved by the Board, and an extrapolation to 2022 using higher level assumptions based on local market growth rates and identified opportunities.

The Group's covenant net debt balance at 31 December 2019 is £235m. The Group's base projections indicate that debt facilities and projected headroom are adequate to support the Group over the next 3 years. The Group's financial plan has been stress-tested against key sensitivities which could materialise as a result of the crystallisation of one or a number of the principal risks, the objective being that the future viability of the Group is tested against severe but plausible scenarios. The sensitivities tested include a reduction in the win rates for rebids, extensions and the pipeline of new opportunities, a delay in delivering margin improvements and a potential penalty arising from risks such as contract non-compliance, major information security breach or a material legal and regulatory compliance failure. A reverse stress test of the Group's profit forecast has been completed using different assumptions of new business and rebid win rates and the Group's profit margin. This analysis shows that the Group can afford to be unsuccessful on 50% of its target new business and rebid wins, or it can be unsuccessful on 25% of its target new business and rebid wins combined with a profit margin 100 basis points below the Group's forecast before the Group has insufficient liquidity available in November 2022, on the assumption that none of the debt which matures during the period of assessment is refinanced, nor does the Group have access to any other sources of funding. November 2022 is the point with the lowest amount of liquidity headroom using the sensitivities outlined above against which the forecast has been stress tested. As context, rebids have a more significant impact on the Group's revenue than new business wins, as contracts accounting for 35% of total revenue are expected to be rebid in the next three years. The Group's rebid win rate has been in excess of 65% over the last two years. While these sensitivities will change in line with the Group's order book and contract performance going forward, including the impact of new contract wins and losses, the ability for the Group to absorb sensitivities of this scale within its existing financing arrangements drove the assumptions below which the Directors felt appropriate to disclose in making this viability statement.

It is unlikely, but not impossible, that the crystallisation of a single risk would test the future viability of the Group; however, unsurprisingly, and as with many companies, it is possible to construct scenarios where either multiple occurrences of the same risk, or single occurrences of different significant risks, could put pressure on the Group's ability to meet its financial covenants. At this point, the Group would look to address the issue by exploring a range of options including, amongst others, a temporary or permanent renegotiation of the financial covenants, disposals of parts of the Group's operations to reduce net debt and/or raising additional capital in the form of equity, subordinated debt or other such instruments.

Subject to these risks and on the basis of the analysis undertaken, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment. In doing so, it is recognised that such future assessments are subject to a level of uncertainty that increases further out in time and, therefore, future outcomes cannot be guaranteed or predicted with certainty. The Directors have made the following key assumptions in connection with this assessment:

- there is no significant unexpected contract attrition of existing work that becomes due for extension or rebid over the next three years;
- there is no significant reduction in scale of existing contract operations as a result of customer policy or other changes;
- there is no significant deterioration in new bid and rebid win rates from those anticipated;
- the Group is able to continue the execution of its strategy growing revenue and profits; and
- the Group is not subject to any material penalties or direct and indirect costs and/or debarment from bidding for new contracts.

Corporate Responsibility

Our principal areas of environmental, social and governance responsibility

As a public company our job is to deliver to our owners attractive returns on their capital, and they expect our profits to increase over time. However, for those returns to be sustainable the Company needs to behave in a way that is responsible and consistent with the broader interests of society. We take this responsibility very seriously.

We are employed to make money for the owners of the business. Without profits we could not generate or attract investment or deliver services or employ people. But we do not regard this as inconsistent with making a positive contribution to society or behaving responsibly. To the contrary, it is the *sine qua non* of the Company's reputation as a trusted organisation providing public services and its ability to secure and retain business from Governments into the future.

We recognise that if we do not behave in a responsible way the value of the Company could be severely impacted and indeed we have experience of this behaviour. We have, through this experience, learned the importance of being very thoughtful about the way we conduct ourselves (see page 90).

Our Values of Trust, Care, Innovation and Pride help us to stay grounded and sit at the heart of how we operate.

We do not believe that it is for Serco to opine on morality, but whilst making money for our shareholders, we serve society in four main ways.

First, by helping Governments to deliver reliable, high-quality services which represent good value for the taxpayer; in many cases this involves providing citizens (or people who aspire to be citizens) with services at difficult times in their lives, or providing services which support critical national infrastructure and assets. Doing these things well is an important contribution to society, and in so doing we support the UN Sustainable Development Goals 11 (Sustainable Cities and Communities) and 16 (Peace, Justice and Strong Institutions).

Secondly, we serve society by employing more than 50,000 people, and giving them jobs which are fairly paid, a safe and healthy workplace where diversity is positively valued, careers which allow them to develop and achieve to the best of their abilities, and ensuring that they are treated with respect. In so doing we support the UN Sustainable Development Goals 1 (No Poverty), 3 (Good Health and Wellbeing), 4 (Quality Education), 5 (Gender Equality), 8 (Decent Work and Economic Growth) and 10 (Reduced Inequalities).

Thirdly, in our interactions with others – be they suppliers, politicians, competitors, lenders or investors – we contribute to society by being straightforward, transparent, respectful and fair. In so doing we support the UN Sustainable Development Goals 12 (Responsible Consumption and Production) and 16 (Peace, Justice and Strong Institutions).

Fourthly, the Company and its employees pay tens of millions of pounds in taxes. In so doing we support the UN Sustainable Development Goals 12 (Responsible Consumption and Production) and 16 (Peace, Justice and Strong Institutions).

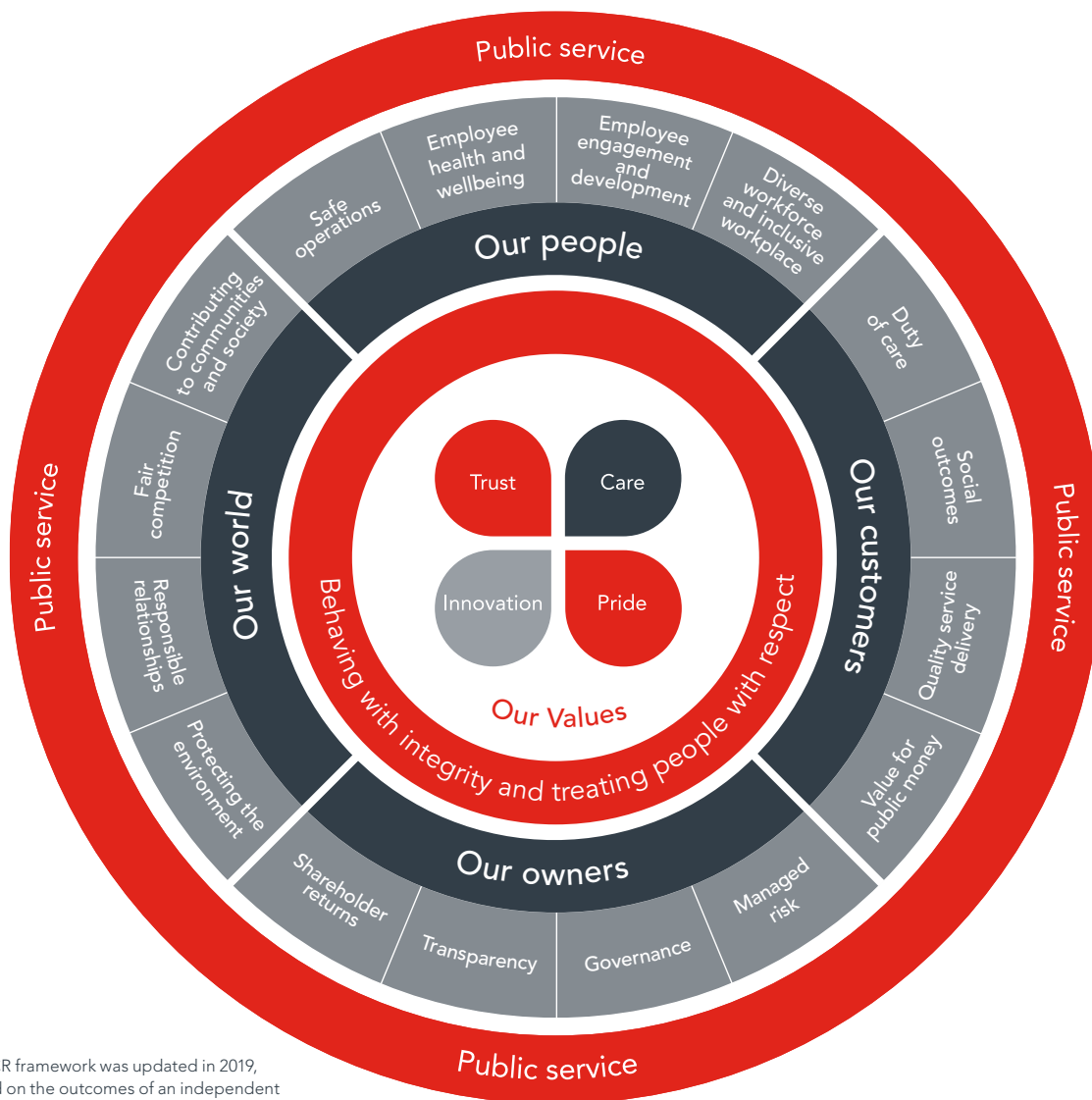
Talking about these things runs the risk of leaving the impression that we believe our behaviour and thinking is always perfect. In a company employing more than 50,000 people worldwide, someone, somewhere is probably doing something stupid or behaving badly. From the Board down, we will make mistakes or take decisions which time judges harshly. We are often faced with situations where there is no clear answer to what is 'doing the right thing'. Regulation and rules cannot provide the answer to everything and we are paid to use our judgement. But just because we are imperfect humans in an imperfect world does not mean that we should not set ourselves high standards of behaviour, and try to make a positive difference, every day.

Here we summarise our progress and performance in delivering our Corporate Responsibility (CR) agenda which includes recognition of our environmental, social and governance (ESG) responsibilities. Further information is available in the CR Committee Report on pages 120 to 121 and our full CR Report, available on the Company's website, at www.serco.com/about/corporate-responsibility

Our Corporate Responsibility framework

In order to make the principles outlined above actionable and meaningful, a few years ago we created a CR framework, which is structured around our four core stakeholders: owners, customers, employees and the wider world.

This framework defines our principal areas of responsibility and sustainability and helps to guide practice and behaviour whilst facilitating measurement of performance. Our efforts are not limited to these items, but this is where we focus our attention and ambitions most closely. Each component in our framework represents a continuously improving system of people, projects and processes – managed by global teams and fulfilled by our employees.



Our CR framework was updated in 2019, based on the outcomes of an independent materiality assessment.

Behaving with integrity and treating people with respect

P79 See page 79 for information.

Our people

P80 See page 80 for information.

Our customers

P82 See page 82 for information.

Our world

P83 See page 83 for information.

Our owners

P85 See page 85 for information.

Corporate Responsibility continued

Our principal areas of environmental, social and governance responsibility continued

Our principal areas of responsibility and sustainability

To identify and prioritise our principal areas of responsibility and sustainability, and ensure they are appropriately embedded in our framework, we use an independent materiality assessment, aligned to external best practice sustainability principles, indices and frameworks¹ and based on:

- the material relevance of all potential sustainability issues to our business model, corporate strategy, Principal Risks and Key Performance Indicators; and
- the material importance of those issues for our business and operations as perceived and experienced by our key stakeholder groups (employees; shareholders; customers; communities and society; government and regulators; partners; and suppliers).

For example:

- Protecting the environment: Our impact and opportunity to create value from an environmental perspective varies in each market and is dependent on the nature of services we deliver and the level of operational control we hold at any given contract. More than two thirds of our operations are on our client sites where we do not always control the main environmental aspects, such as managing building services, energy and waste. It is on this basis that our assessment has been made. However, there are ways in which we can control and are working to reduce the environmental impact of our operations, such as robust environmental governance, measuring and managing supply chain impacts, reducing business travel and fostering positive environmental behaviours among employees;
- Duty of care / Social outcomes: The majority of the services we provide involve direct human interaction and care, such as patients in the hospitals where we provide healthcare support services, or offenders in the prisons where we provide rehabilitative psychological services, so not only is service user wellbeing important to us, it is integral to many of the services we provide.

Our 2019 materiality matrix:



Note:

1. Including the Global Reporting Initiative (GRI) Standards, Dow Jones Sustainability Index (DJSI), the Sustainability Accounting Standards Board (SASB) guidelines and the UN Sustainable Development Goals (SDGs).

Behaving with integrity and treating people with respect



Corporations should not be arbiters of morals and ethics; however, they can set standards of behaviour for themselves, and in our case these are reflected in our Values of Trust, Care, Innovation and Pride.

Across all our regions, we strive to behave with integrity and treat people with respect, within the bounds of expected individual and corporate behaviour, with regard for relevant laws and regulatory requirements, with sensitivity to local cultures and with respect for human rights.

It is inevitable in any company employing more than 50,000 people that from time to time individuals or small groups behave inappropriately. Our task is to give people a framework and a clear understanding of our Values to minimise the risk of them going outside those boundaries, and also to have a comprehensive and effective compliance and reporting system so that if they do, we find out about it quickly.

We have zero tolerance for any form of bribery and corruption or any activities that break any law relating to human rights, either directly or indirectly, anywhere in the world. We will not engage in any form of human trafficking or use forced, bonded, illegal or child labour, nor knowingly work with anyone who does; this commitment recognises all applicable modern slavery legislation. We use international human rights standards as a framework to assess, monitor, mitigate and remedy any actual or potential adverse human rights impacts that may affect our business.

We have continued to drive our Ethics Compliance agenda, including human rights, with focus and resolve:

- evolving our Group Ethics Compliance framework and strategy to provide a more standardised, structured blueprint for future evolution and impact;
- strengthening Ethics Compliance leadership and capability at Divisional levels by:
 - updating and standardising organisational structures and roles;
 - undertaking a programme of professional certification; five out of eight Ethics Compliance Leads are now CCEP-I certified – the remainder to complete in 2020;
- developing a real-time Ethics Compliance dashboard for more consistent and responsive monitoring;
- conducting a Group-wide review of our global ethics helpline and investigation process, Speak Up, to inform improvement plans;
- strengthening our compliance assurance, including:
 - increased focus on critical controls within the Serco Management System (SMS) and SMS Self-Assessments;
 - reporting changes to bring greater focus to the closure of actions and overdue actions from SMS Self-Assessments and Compliance Assurance Reviews; and
- reviewing and updating policies and procedures to ensure compliance with the Australian Modern Slavery Act (2018) and Whistleblower Reform (2019).

Next steps

To deepen our global Ethics Compliance maturity and overall capability, we plan to:

- drive greater coherency and collaboration by replicating our UK 'Values and Integrity Network' in every Division;
- launch enhanced training for the Board, Executive Committee and Divisional Executive Management Teams, including at our annual leadership conferences;
- enhance Board and Executive oversight and challenge for Ethics Compliance, including:
 - annual reporting by Divisional Ethics Compliance and Compliance Assurance Leads to the CR Committee and Risk Committee respectively without Executive Management present;
 - annual review of Ethics Compliance and compliance assurance governance and capability, Three Lines of Defence, and reporting of findings to the CR, Risk and Audit Committees of the Board; and
 - the continued evolution of the CR Committee of the Board with a principle focus on holding the organisation firmly to its Values and standards of behaviour, with particular emphasis on our principal areas of social responsibility: our people, our world and our commitment to behave with integrity and treat people with respect;
- ensure coverage of this area as part of the wider Compliance Assurance Programme to deliver the following benefits:
 - standardised approach and testing of critical controls across the Group;
 - development of assurance maps mapping the Three Lines of Defence;
 - assurance reporting improvements to align and support integration with Enterprise Risk Management (ERM);
- incorporate within relevant Internal Audits, tests of the design and operating effectiveness of controls established by management to ensure compliance with Serco's Ethics Compliance requirements;
- deliver a consistent approach to the assessment of Ethics Compliance risks in line with our ERM framework; and
- act on the findings of our Speak Up review and further strengthen our Speak Up oversight and investigations capability, and improve communications and awareness.

Our Group Slavery and Human Trafficking Statement 2019 is available at www.serco.com/slaverystatement

P83 See also:
Fair competition

P84 See also:
Responsible relationships

Corporate Responsibility continued

Our people



We are committed to promoting and enabling the diversity, development, wellbeing and safety of our people.

Our people are very proud of all that they do, and we are very proud of them. In 2019 we published our first People Report, with an ambition to publish it annually, highlighting the work of our frontline colleagues and providing insights into their motivations. The report, available on the Company's website at www.serco.com/about/people-report, also sets out our ambition for making Serco a great place to work and the steps we are taking to achieve this.

In the People Report, we explore how our people support and enable patient care in hospitals and we hear from our employees about how they make a difference for asylum seekers and ex-offenders in the UK, military personnel in the US, aspiring air traffic controllers in Iraq, and disadvantaged members of the public in Australia. Men and women around the world of Serco share their experiences of inclusive support, development and career opportunities for all, including our LGBT+ colleagues, those with disabilities and all cultural backgrounds. We also explore what we are doing to promote and support wellbeing for all – working to keep our people healthy, fit and thriving whether on the streets, in our call centres, returning to work after parental leave or living and working for Serco thousands of miles from home.

Safe operations

Our vision is zero harm. We want no one to come to harm because of the work we do. Wherever we work, we are committed to the prevention of injury and promoting a just safety culture.

We have:

- strengthened safety leadership:
 - appointing Anthony Kirby, Group HR Director, our Group Executive Sponsor for Health, Safety & Environment (HSE);
 - renewing procedures for, and our commitment to, leadership safety tours as a means of reinforcing safety culture and driving safety behaviours;
- continued to increase the depth, breadth and rigour of our governance and reporting at all levels:
 - establishing proportionate cross-Divisional oversight across safety-critical areas;
 - increasing the frequency of Divisional HSE reporting;
 - launching a new 'Hazard Management and Risk Assessment' module for our HSE reporting system, Assure;
 - deploying and embedding our new near-miss reporting tool in all Divisions;
 - setting new three-year targets for Safety Key Performance Indicators to focus on long-term trends beyond year-on-year improvements;
- continued working to improve our capability, culture and performance:
 - publishing procedures for Just Culture Assessment to support effective investigation and intervention;
 - driving Divisional improvements in response to our 2018 safety culture survey;
 - developing new 'high visibility' safety awareness resources; and

- deepened focus on the HSE element in the Group Principal Risk, 'Catastrophic incident' and associated mitigations.

Next steps

In addition to delivering our ongoing processes, programmes and schedules of continuous improvement, we plan to:

- deploy our new high visibility safety awareness resources across all regions;
- continue embedding our Just Culture processes;
- continue acting on our safety culture survey results whilst undertaking pulse surveys in several areas;
- conduct deep dive reviews in the CR Committee on selected key safety incidents to ensure learnings are captured and gain assurance of progress on actions;
- explore application of our UK Citizen Services 'Respect & Protect' campaign in other sectors and regions; and
- refresh policy and guidance for home working risk assessments.

Employee health and wellbeing

We understand that healthier, happier employees go hand-in-hand with strong business performance, enhanced productivity and better outcomes for those we serve. Wherever we work, we are committed to the promotion of wellbeing and the prevention of ill health.

We have:

- strengthened health and wellbeing leadership:
 - appointing our first Group Head of Workplace Health & Wellbeing (H&W);
 - ensuring all Divisions have a dedicated H&W Lead;
- elevated employee H&W as a Group strategic priority and launched our first Divisional H&W strategy in our Asia Pacific Division;
- continued to increase the depth, breadth and rigour of our governance and reporting:
 - introducing a new H&W Forum for global oversight;
 - strengthening H&W elements across the SMS;
- continued working to improve our capability, culture and performance:
 - building our global network of local H&W Champions;
 - reviewing third-party service provision to ensure the best solutions support our employees; and
- celebrated World Mental Health Day in October.

Next steps

In addition to delivering our ongoing processes, programmes and schedules of continuous improvement, we plan to:

- develop a dedicated H&W strategy for every Division;
- focus on mental health, including access to mental health education, manager training and support for all employees;
- develop standard policy and guidance for automated external defibrillators in all Serco-controlled environments; and
- improve our process for assessing operational health risks.

P86 Find out more about CR in action at Serco

Employee engagement and development

We want everybody who works for Serco to have a positive experience and to have access to opportunities to develop in their chosen careers. We track the engagement of our employees and measure the trends to determine where together we can improve further.

We have:

- continued to run our Company-wide annual engagement survey (achieving an overall employee engagement score of 71, up four points from 2018), supplemented with more frequent pulse surveying in selected parts of the business;
- taken on board the honest views of employees and, in response to these, developed action plans and followed through on their progress;
- worked to amplify employee voice and strengthen dialogue between the Board and all employees:
 - appointing Kirsty Bashforth, Non-Executive Director, and Anthony Kirby, Group HR Director, our lead representative on the Board and Group Executive Sponsor for Employee Voice, respectively;
 - introducing into our employee engagement survey an opportunity for respondents to share feedback with the plc Board;
 - appointing our first Group Colleague Communications Manager to deliver our ambitions in this area through our ‘Colleague ConneXions’ programme, which will include: hosting bi-annual discussion events with Kirsty Bashforth on our internal social media platform; provision of online resources and communication channels for employees; supporting Non-Executive Director visits to our operational sites and participation in each regional leadership conference; and providing quarterly progress reports to the CR Committee of the Board;
- continued investing in personal and professional development for our people to help them fulfil their potential whilst developing capability to meet current and future business needs, including:
 - launching our new graduate programme, to identify and develop our leaders of the future, initially in the UK and Australia;
 - developing a new approach to performance management, focused on enabling more meaningful performance and career conversations;
 - delivering our Management and Contract Manager programmes with University of Oxford, Saïd Business School, for a further 116 members of our global management population, bringing the cumulative total to 441;
 - maintaining Divisional development programmes for talented employees at earlier stages of their careers, providing the skills and opportunities to grow within Serco; and
- continued managing relations and building partnerships with our recognised trade unions in all regions.

Next steps

In addition to delivering our ongoing processes, programmes and schedules of continuous improvement, we plan to:

- embed our new Employee Voice governance and Colleague ConneXions programme;
- continue the evolution of our approach to monitoring engagement by:
 - making it easier for employees to share their views;
 - improving employee experience at key points in the employee lifecycle;
 - capturing feedback and sentiment on a real-time basis;
 - updating our ‘Engagement Awards’ programme in line with our evolving approach;
- launch our new approach to performance management;
- launch our graduate programme in North America and the Middle East; and
- increase interaction with our recognised UK trade unions regarding health and wellbeing, Employee Voice and diversity and inclusion.

Diverse workforce and inclusive workplace

Our business thrives because of our talented and diverse workforce. We are constantly looking to improve our ways of working in order to make Serco an even better place to work for everybody. Not only do we firmly believe this is the right thing to do, we believe that diverse teams, reflecting the communities they serve, outperform in their service delivery and provide greater value to our customers.

We have:

- continued to expand our Diversity & Inclusion (D&I) activity whilst embedding inclusion in our culture:
 - appointing our first Group Head of D&I;
 - working to deliver regional objectives aligned to our global focus areas (Gender, Disability, Multicultural and LGBT+) including: visible executive sponsorship of each area; developing our employee networks and strategic partnerships; promoting a culture of D&I; hosting or participating in a schedule of events in each area to celebrate and highlight diversity; and working to improve diversity in senior appointments;
- launching a shared online environment, the Serco ‘Inclusion Hub’, where our employee networks are each their own unique community whilst benefiting from collective coordination and collaboration;
- co-hosted a D&I conference with The Whitehall & Industry Group (www.wig.co.uk) to share experience and learn from other organisations;
- published our People Report, featuring a dedicated section on D&I and sharing our commitments to:
 - increase female representation amongst senior leaders to 35% by 2023;
 - reduce our UK Gender Pay Gap (GPG) to below 10% by 2022; and
- reported our UK GPG for 2018 (11.9%) and 2019 (10.2%).

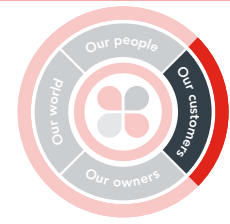
Next steps

We plan to:

- assess our D&I culture and performance in every region against a standard best practice framework;
- continue to embed and empower our employee networks in all regions and connect them in our Inclusion Hub to drive greater value Group-wide;
- increase the coverage and accuracy of our people data to enable more meaningful value generation for our employee communities whilst improving our performance monitoring and reporting capability; and
- put in place practical plans to improve our attraction, development and retention for all diversity groups.

Corporate Responsibility continued

Our customers



We understand the complex social challenges that shape our chosen markets and strive to help our customers address them. We are driven by our public service ethos to help our customers create positive and sustainable outcomes for society.

Duty of care

We place human rights and the health, safety and wellbeing of the public at the heart of service design and delivery.

Social outcomes

We aim to enhance social outcomes by designing and delivering frontline public services that make a real difference to people's lives.

Quality service delivery

We draw on our international best practice, cross-sector experience and our ability to innovate in order to help governments raise standards of public service.

Value for public money

Along with quality of delivery, we seek to enable governments to deliver better for less.

We have, and will continue to:

- invest in, develop and improve citizen-centric, outcome-focused service solutions, informed by:
 - service users – integrating citizen and user-centred design and feedback into our services, such as the Serco Cares programme and the capabilities of our customer experience and service design agency, Serco ExperienceLab;
 - our people – cultivating more opportunities to harness their ideas and expertise; for example, through our Oxford Management programmes, evolving employee engagement survey capability, development of a new innovation strategy and creating better networks across the business;
 - our Values and public service ethos – ensuring all colleagues are clear that we are a company who often seek to go beyond the requirements of our contracts to do the right thing and improve social outcomes; and
 - the non-governmental organisations with whom we partner for service delivery – through strong consultative and collaborative relationships;
- contribute more to social outcomes and social value within our contracts, through the continuing development of our new Social Value strategy;
- contribute more to social outcomes outside the remit of our business through the rebirth in 2019 of the Serco Foundation, whose mission is to enhance public service outcomes for vulnerable citizens;
- work to create positive, safer service environments through our focus on the wellbeing of employees, service users and others, and our commitment to a vision of zero harm (see 'Our People', page 80);
- deliver and refine policy and processes to maintain a workforce who reflect the communities we serve, understand our expectations of caring behaviour and are bound by a strong set of Values; and
- work to deliver all contracted duty of care requirements and address service-specific risks and challenges at all stages of our business lifecycle.

We have, and will continue to:

- work to improve the efficiency and productivity of our service delivery through our new Contract Productivity Community of Practice and the work it is doing to understand different levers we can pull globally to make improvements in this area;
- improve the efficiency and effectiveness with which we manage our workforce; for example, through the increased rollout of workforce management systems across our contracts;
- identify new technologies to improve both our back office and customer delivery; for example, through our work with incubators and start-ups;
- deliver our annual schedule of formal Contract, Business Unit and Divisional performance reviews;
- deliver key transformation programmes to enhance our internal capabilities whilst maintaining or improving our overhead efficiency;
- deploy our global sector Centres of Excellence (CoEs) to develop global best practice and innovation in public service delivery; for example, our Internet of Things pilots, global efficiency benchmarks and new service offers developed by our Healthcare CoE;
- expand our Operational Excellence (OE) programme – cultivating continual improvement and efficiency creation by successfully training our employees in OE (1,318 employees trained during 2019);
- deploy the Serco Institute as a mechanism for researching and developing innovative public service solutions for the future; for example, through our work in 2019 on Social Value, Whole Force by Design, and violence reduction in prisons; and
- develop new global Communities of Practice in areas with international synergies and where improved knowledge-sharing could reap benefits, including maritime and aviation services.

Our world



We strive to be responsible in how we manage our impact on the communities, economies and environments in which we operate – working to make a positive and sustainable difference wherever possible and limiting any other impact we may have.

Contributing to communities and society

Operating amongst and on behalf of our communities, we have a deep understanding of the complex social challenges that impact them. We encourage and facilitate community initiatives and charitable giving, both from employees and from the Serco Foundation. Beyond this, as an active and community-minded employer and participant in national infrastructure, we contribute to the sustainability and wellbeing of society and the economy wherever we operate.

We have:

- continued positive and meaningful engagement locally with our communities, charities and other causes in all regions;
- engaged with the business to consider options for overcoming challenges in capturing the full extent of our community investment;
- hosted an event focused on the UK Government 'Social Value' agenda through the Serco Institute, 'How to achieve real Social Value in public sector outsourcing', with participants from a number of relevant sectors; and
- formally relaunched the Serco Foundation, an independent charitable organisation aiming to support non-profit organisations in the delivery of public services through awarded grants and the secondment of Serco employees.
 - For example, £19,878.00 has been awarded to the Royal British Legion Industries to fund one of the charity's 'Lifeworks' programmes, supporting veterans to find and maintain paid employment after military service.

Next steps

We plan to:

- agree and implement improvements that will enable us to resume reporting our global community investment performance; and
- continue helping to facilitate government and industry dialogue and direction regarding the UK Government 'Social Value' agenda.

In addition, the Serco Foundation will focus on increasing the number of grants awarded to non-profit organisations and support the fundraising initiatives of Serco employees.

Fair competition

We strive to compete legally, fairly and ethically, making sure we promote competition in business, protect our customers' interests and avoid situations that may, or may appear to, create a conflict of interest.

We have:

- launched and begun to embed our new Organisational Conflicts of Interest procedure and Register;
- developed and launched a new Personal Conflicts of Interest Register, embedding it in our onboarding process for new starters and in annual declarations by management and those in specific roles; and
- developed targeted training for high-risk roles.

Next steps

In addition to delivering our ongoing processes, programmes and schedules of continuous improvement, we plan to deploy our new training for high-risk roles.

Corporate Responsibility continued

Our world continued

Responsible relationships

We seek to build honest, respectful and transparent relationships with customers, partners and suppliers – requiring that they follow regulatory compliance and share our ethical standards and commitment to sustainability throughout the supply chain.

We have:

- transformed our global procurement function, which will help us mitigate supplier risks more effectively, partly by enabling us to leverage the strategic capabilities and global scale of a new third-party procurement delivery partner;
- reported our Serco Limited supplier payment performance – as reported, we paid 88% of invoices on time in 2019, up 5 percentage points from 2018;
- commenced a review of our small and medium-sized suppliers to identify opportunities for improved management in line with new UK regulations;
- upgraded our third-party due diligence process to adopt a risk-based approach and implemented a revised screening tool to enable more proportionate due diligence per third party;
- revised procedures for the due diligence and monitoring of suppliers, agents and strategic partners, and published new due diligence guidance for new country entry;
- reviewed our management approach to company agents, identifying opportunities for improvement;
- strengthened our Tier 1 supplier reviews and enhanced our onboarding questionnaire;
- developed a more in-depth due diligence questionnaire for high-risk suppliers regarding modern slavery; and
- worked with Stronger Together (www.stronger2gether.org), to validate our high-risk supply categories and identify opportunities for improved supply chain management.

Next steps

In addition to delivering our ongoing processes, programmes and schedules of continuous improvement, we plan to:

- complete the implementation of our new third-party due diligence process and screening tool, including improved customer segmentation;
- conduct a compliance review of all joint venture and strategic partner management;
- continue cleansing our supplier base and revisit our plans to implement a supplier relationship management solution across the Group;
- continue working with Stronger Together on how we engage Tier 1 suppliers regarding their Tier 2+ suppliers and their management of modern slavery risks; and
- explore how we can better adopt sustainable procurement principles such as: use of whole-life costing and accounting, reducing energy consumption in operation and reduced packaging, and purchasing products that meet minimum environmental standards.

Protecting the environment

We are committed to limiting the impact of our operations on the environment through more sustainable business practice for our customers and wider stakeholders.

We have:

- strengthened our environmental leadership across the organisation, appointing Anthony Kirby, Group HR Director, our Group Executive Sponsor for HSE;
- continued to monitor emerging environmental risks and reviewed our strategy to ensure our environmental management remains adequate and relevant, and that we are building a culture of environmental stewardship that drives improvements proportionate to the risks and impacts of specific operations. Our main areas of focus remain:
 - driving decarbonisation and building climate change resilience;
 - sustainable resource use, resource efficiency and waste reduction;
 - local environment protection and enhancement, including pollution prevention;
- benchmarked our approach to climate change via the annual Carbon Disclosure Project (CDP) climate change questionnaire, achieving a score of C;
- commenced reporting in line with The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018;
- continued working with our supply chain partners to improve practice regarding measuring, managing and reporting on the Scope 3 (indirect emissions) products and services category; and
- celebrated World Environment Day in June with the cross-Divisional theme of tackling air pollution.

Next steps

In addition to delivering our ongoing processes, programmes and schedules of continuous improvement, we plan to:

- update our environmental strategy – sharpening our focus on delivering Group energy, environment and sustainability commitments at Business Unit level and through our supply chain;
- explore new opportunities to enhance the depth and breadth of our environmental reporting, including our compliance and performance against the Task Force on Climate-related Financial Disclosures, building on preliminary analysis undertaken in 2019;
- review our approach to categorising our contracts for environmental reporting; and
- continue reviewing Group-level carbon target opportunities whilst monitoring Divisional action planning and delivery to ensure we continue to drive improvement in our most energy and carbon intensive contracts.

Our owners



We are determined to protect our shareholders' interests and create long-term, sustainable value for them.

Shareholder returns

We focus on creating long-term, sustainable value – protecting the interests of our owners alongside those of our employees, customers and the communities in which we operate.

As shareholders have not received dividend income in recent years, total shareholder return (TSR) is reflected in share price performance (SPP) only. Point-to-point SPP has been -31%, -3% and +69% from start to end of the financial years 2017, 2018 and 2019, respectively.

SPP is influenced by many factors: financial and non-financial, historic and prospective, and related specifically to Serco and to the wider stock market. However, the earnings and returns on invested capital delivered are considered important to SPP. Underlying diluted earnings per share (EPS) performance was -17%, +55% and +18% for 2017, 2018 and 2019, respectively, whilst underlying return on invested capital (ROIC) has been at 9.6%, 13.6% and 15.4% for these three years. The Group's order book was £10.7bn at the end of 2017, increasing to £12.0bn for 2018 and £14.1bn for 2019.

Next steps

As set out in our guidance and outlook, we expect to deliver further strong growth in 2020, with Revenue of £3.4–3.5bn expected, which would represent total growth of 6–8%, and Underlying Trading Profit forecast to increase by about 20% to around £145m. In terms of our ambition of achieving margins of at least 5% over the longer term, we believe this is still achievable. We continue to deliver against our plans and make good progress against our strategy.

For more information and broader discussion and analysis on our progress and performance in 2019, as well as our guidance and outlook, see Key Performance Indicators on pages 9 to 11, Chief Executive's Report on pages 22 to 34, Directors' Report on pages 149 to 153 and Financial Statements on pages 155 to 240.

Governance

We work within a structure of governance that seeks to enable effective direction, control and assurance of the business, including where and how we operate and how we manage our responsibilities to stakeholders.

For Serco, governance is not an exercise in compliance, nor is it a specific form of management – it is an essential part of our public service ethos and ensuring we fulfil our purpose. We have a comprehensive corporate governance framework, with clearly defined responsibilities and accountabilities to safeguard long-term shareholder value. Below this our management framework, the Serco Management System, defines 'what' we do through policies, standards and procedures whilst our Code of Conduct defines our expectations of 'how' we do it, underpinned by our Values and commitment to behave with integrity and treat people with respect.

In 2019 we completed the transfer and embedding of the core elements of our Corporate Renewal programme into our business as usual processes, controls and governance.

For more information, see our Corporate Governance Report on pages 104 to 123 and our full Corporate Responsibility Report which is available on the Company's website.

Transparency

With investors, as with customers, we seek long-term relationships based on transparency, honesty and clarity – all of which are critical for building trust. We are therefore committed to open and regular engagement with our shareholders.

We have:

- issued regular trading updates in addition to the requirement to report half- and full-year results;
- issued more than 30 announcements regarding contract awards or corporate transaction news;
- engaged with around 150 different investment funds – holding meetings with institutional investors and attending investor conferences as part of our programme of post-results roadshows and corporate access activity;
- hosted other events, such as meetings for analysts to engage with the wider operational management team of the business, or to hear broader perspectives on our sectors and markets, such as through the work of the Serco Institute; and
- were recognised for our commitment to transparency in rankings and awards including those for Institutional Investor magazine, the Investor Relations (IR) Society award for best IR relating to a corporate transaction and in Management Today's Most Admired Companies Awards – named leading Support Services business.

Next steps

We will continue to deliver a comprehensive annual schedule of internal and external reporting, shareholder engagement and reporting assurance.

Managed risk

In order to achieve our strategic and business objectives, protect our stakeholder interests and maximise our returns, we seek to identify, manage and mitigate our exposure to risks through robust procedures and controls throughout the organisation.

For more information and our progress and performance in 2019, see Principal Risks and Uncertainties on pages 62 to 73 and our Group Risk Committee report on pages 109 to 111.

Corporate Responsibility continued

Corporate Responsibility in action at Serco

Beyond this report, our organisation is alive with leadership and action. Each component in our framework represents a continuously improving system of people, projects and processes – managed by global teams and fulfilled by our employees.

Here we share headline examples of how our people have brought our commitments to life in the last 18 months.

CR IN ACTION... FOR OUR PEOPLE

Improving everyday safety in every workplace through our new 'high-visibility' safety campaign.	Celebrating National Inclusion Week and empowering our employee networks with the Serco Inclusion Hub.	Training our team of Fire and Rescue Service firefighters at King Fahd International Airport to an internationally accredited standard.	
Cultivating community spirit and wellbeing in Serco Middle East with Serco Sports.	Building frontline capability to have challenging conversations about mental health.	Identifying and developing our leaders of the future with the new Serco Global Graduate Programme.	Winning a National Inclusion Standard Bronze Award for our commitment to promoting inclusion in the workplace.
Using Virtual Reality technology to enhance training and improve safety for the Dubai Tram.	Improving team health, wellbeing and performance through our Fit For Life – Park Athlete programme.	Inspiring a dynamic culture of wellbeing through our Serco Wellness programme.	Building, developing and maintaining a workforce that represents equal opportunity for all at the National Disability Insurance Scheme in Australia.
Equipping our operational leaders in North America with essential knowledge and resources at our 'Program Manager Plus Boot Camp'.	Creating unique specialist training and career progression opportunities through international collaboration with Serco Marine Services.	Facilitating dialogue across national industry on common diversity and inclusion challenges with the Whitehall & Industry Group.	
Celebrating diversity and supporting our LGBT+ community at Pride 2019 in the US and UK.	Keeping our people safe on the streets with Serco Respect and Protect.	Celebrating our female Emirati staff and creating more opportunities for their employment and development.	Celebrating and inspiring career progression at the Dubai Metro with our Track to Success programme.

To find out more, please see our full Corporate Responsibility Report.

CR IN ACTION... FOR OUR CUSTOMERS

Embracing innovation to safeguard society and reduce reoffending through our Accelerate@Serco programme.

Helping to promote industrial and technological progress at the United States Patent and Trademark Office.

Helping to rebuild civil aviation in Iraq by training aspiring Iraqi air traffic controllers in our Aviation Academy in Baghdad.

Rolling out the Red Cross Community-Based Health and First Aid programme at Acacia Prison in Western Australia.

Helping a local community to recover from a natural disaster that destroyed a town and surrounding area.

Challenging conventional practices to reduce reoffending and remove barriers for disadvantaged communities with Serco Alternative Justice.

Enabling continuous improvement across Serco and providing rehabilitative development for prisoners through our Operational Excellence programme.

Helping Dubai Metro passengers to become more safety conscious.

Delivering award-winning innovation to enhance service provision at the Dubai Metro.

Designing and developing rapid prototype solutions to enable the US Navy to determine manpower requirements.

Making Northlink Ferries as accessible as possible for passengers with additional support needs.

Helping to reduce reoffending through cost-effective prisoner reintegration support services at the Adelaide Remand Centre.

Enabling Victoria Police to focus on core policing activities whilst making it easier for citizens to access non-emergency services.

Improving patient care in UK hospitals through our Serco Cares programme.

Enabling innovative energy efficiency in facilities infrastructure with Serco Insights.

Helping local government to meet the needs of society through citizen-centred design at Serco ExperienceLab.

Collaborating across contracts to save the US Navy money and time while delivering high quality security solutions.

Reducing the risk of prisoner self-harm and suicide in UK prisons with our Vulnerability Prediction Tool.

Overcoming exceptional challenges in order to maintain quality patient care at University Hospital Southampton, UK.

Pushing the boundaries of technology to develop new capabilities even more closely aligned to evolving customer needs.

To find out more, please see our full Corporate Responsibility Report.

Corporate Responsibility continued

Corporate Responsibility in action at Serco continued

CR IN ACTION... FOR OUR WORLD

Helping prisoners' families access local health services at Kohuora, Auckland South Corrections Facility.

Celebrating an award-winning supply chain service partnership at United Arab Emirates University.

Delivering social and environmental benefits through our insurance investments with Premiums4Good.

Helping to fight the Australian bushfire crisis through charity, volunteering and supporting national disaster relief efforts through our operations.

Building stronger relationships between asylum seekers and local communities through volunteering and non-profit partnerships.

Sharing leadership, expertise and resources to help social and environmental responsibility to flourish in the United Arab Emirates.

Helping to upskill Small and Medium Enterprise workforces and boost local economies in England with Serco Employment, Skills & Enterprise.

Recycling to reduce landfill and support the Western Australian disabled community at Fiona Stanley Hospital.

Helping to minimise costs and protect the environment through the management of hazardous materials for the US Department of Defense.

Supporting the tribally owned services company, Puyenpa through the US Small Business Administration 'All Small Mentor-Protégé program'.

Embedding 'everyday green thinking and behaviour' across the business with our Serco Europe Goes Green programme.

Achieving a new standard of energy management for efficiency, sustainability and resilience in Serco Leisure.

Reducing waste to landfill whilst contributing to Red Crescent by recycling textiles at United Arab Emirates University.

To find out more, please see our full Corporate Responsibility Report.

Our approach to determining where we operate, what we do and who we serve

We support governments in delivering their public policy commitments, often in very sensitive areas. Our role is to deliver specific elements of those policies in the most effective, efficient and caring manner, working with our customers to maximise the value generated for society, in whose best interest those policies are developed.

Everything we do is motivated by our desire to be a trusted partner of governments, delivering superb public services that transform outcomes and make a positive difference for our fellow citizens. However, what we do – including where and how and who we serve – is also carefully governed by Serco – approached with conscience, caution and with uncompromising adherence to our Values and commitment to behave with integrity and treat people with respect.

We work to identify, create and earn business opportunities where we believe we can achieve an optimal balance of sustainable value creation for our stakeholders. Our potential involvement in activities on behalf of our customers is subjected to a rigorous process of review and qualification which seeks to enable transparent and well-informed decision-making, and seeks to ensure compliance with our strategy, Policies and Standards. It also aims to ensure due consideration of salient adverse impact risks, including those from environmental, social and governance (ESG) perspectives.

Our Business Lifecycle

Embedded within the Serco Management System (SMS) is our Business Lifecycle, which describes the core processes that apply throughout every business activity, from the identification of geographies and markets, business development and bidding, through operations and eventual closure of our contracts.

The Serco Business Lifecycle constitutes several stages which follow the maturity of any business opportunity, controlled through a series of ten mandatory governance Gates (Gates 0-9). Each Gate Review represents a key decision point and requires formal assessment and approval by senior management.

A set of governance themes is considered in Gate Reviews, including: material legal, ethical and human rights risks; health, safety and environment risks; and other salient adverse impact risks from an ESG perspective.

The requirements and spirit of the SMS must be met, including Policies, Standards and controls relevant to management of our principal areas of ESG responsibility and sustainability. A business opportunity that cannot satisfy such criteria will not be pursued.

Our Business Lifecycle decision-making governance

Our Business Lifecycle is supported by a robust governance framework and Delegated Authority Matrix which prescribes the level of oversight and approvals required.

Divisional Chief Executives establish a Business Lifecycle Review Team (BLR Team) to review opportunities. The BLR Team provides direction for each opportunity whilst ensuring appropriate governance and Gate authorisation throughout its lifecycle. BLR Teams are led by Divisional Chief Executives and comprise business and functional specialists whose collective experience and expertise seeks to ensure the opportunity is directed to an appropriate outcome, which includes ensuring compliance with Gate governance in accordance with the SMS.

Divisional Executive Management Teams provide oversight of the Business Lifecycle at the Divisional level. BLR Teams are responsible for determining whether a decision exceeds their Limits of Authority and requires scrutiny and oversight by the Investment Committee and/or the Serco Group plc Board.

The Investment Committee comprises the Group Chief Executive, the Group Chief Financial Officer, the Group General Counsel and Company Secretary and other members of the management team. It acts on behalf of the Board to review, monitor and approve bids, mergers, acquisitions and disposals and other corporate activity within specific authority limits delegated by the Board.

Any decision exceeding the authority of the Investment Committee requires Serco Group plc Board review and approval.

Our Business Lifecycle decision-making tools

The SMS features several tools which directly support Business Lifecycle decision-making. These include:

- Our New Country Due Diligence guidance – which prescribes the extent and depth of due diligence required for entry into a new country based on a range of service, customer and geographical criteria.
- Our Human Rights Standard and supporting Human Rights Decision Tree procedure – which describes and enables the identification and assessment of any actual or potential Adverse Human Rights Impacts in which Serco might be or become involved, either through its own activities or business relationships.
- Our Third Party Due Diligence processes and controls – which apply to customers, suppliers, agents and other third parties, and mergers and acquisitions, and enable assessment of whether a third party relationship will increase our exposure to ethical and legal liability.

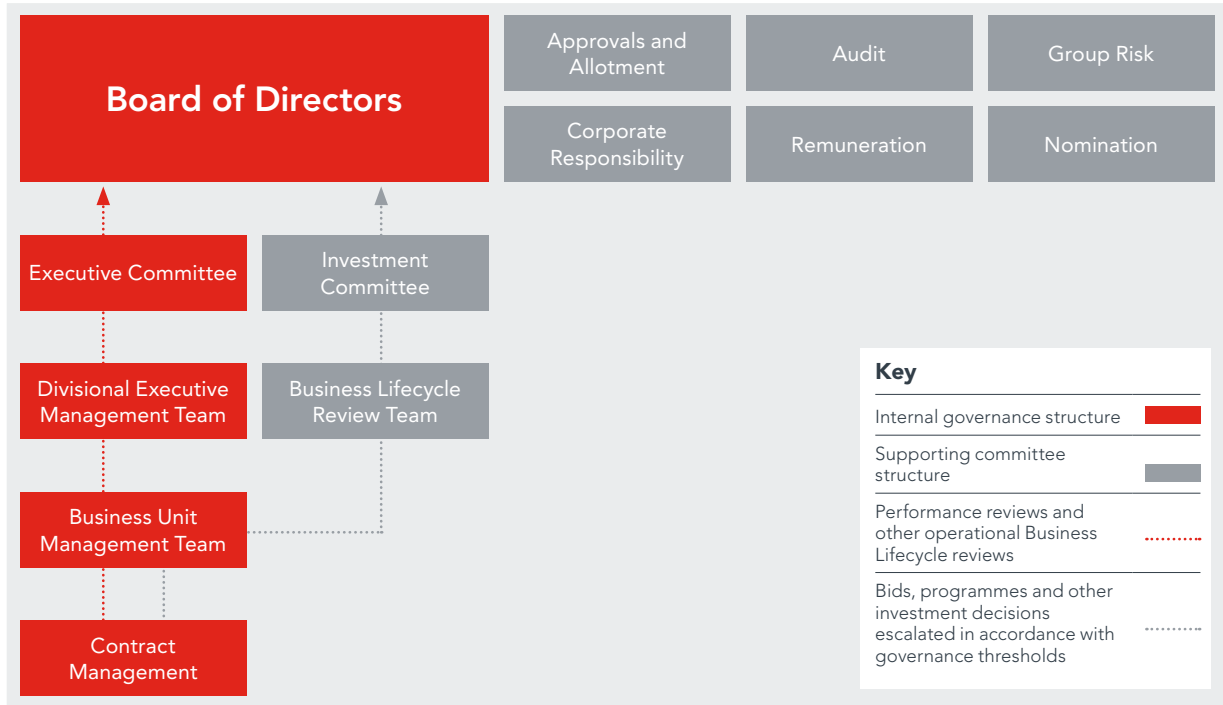
Rebids, extensions and material contract variations

Decisions made are revisited at natural intervals in the contract lifecycle. Rebids, extensions and material contract variations are approached in the same way as new business opportunities.

Corporate Responsibility continued

Our approach to determining where we operate, what we do and who we serve continued

Our Business Lifecycle decision-making governance structure



Doing the right thing across a complex global ecosystem of stakeholder dynamics

We are proud of our involvement in the delivery of complex government policy – for example: running prisons to reduce reoffending, supporting individuals seeking asylum through housing and community integration, and strengthening the fulfilment of the UK Government’s nuclear defence policy through our interest in AWE. We believe we have the right combination of experience, expertise and ethos to provide our customers the support they need to fulfil their missions – all of which are considered vital to the sustainable wellbeing of the nations they serve and, in some cases, global society – in areas defined by delicate and constantly shifting stakeholder dynamics.

Doing our job well requires us to balance diverse stakeholder interests. Doing the right thing across a complex global ecosystem of stakeholders is not always comfortable or popular, but it is seeking to deliver consistently and with quality, holding ourselves to account, standing by our Values and heeding our lessons that most clearly defines us today. We continually challenge ourselves to make sure we understand and provide appropriately for what matters most regarding our role in society, the impact that we have and the value we create. We know we work in many difficult areas and we focus on trying to do it well, with respect and with fairness.

In deciding what types of work we should or should not do and where we might do it, we take into account many issues including ESG considerations. There are some countries where the risks are unacceptable, so we decide not to do business or certain types of business in those countries. Even where there

are areas in which democratically elected Governments have decided something is acceptable, we may decide that we are uncomfortable doing that particular type of work and do not believe it is in accordance with our Values. There are a number of examples of types of business opportunities in countries and sectors where we have been unable to get ourselves comfortable. In those cases, we have not bid and refused opportunities on ethical grounds or set conditions that would have allowed us to be comfortable that ethical issues would be dealt with, but that have not been accepted by the potential customer. We will continue to do the same in the future.

Our involvement in the UK Atomic Weapons Establishment (AWE)

One area of our work which some stakeholders find challenging is our involvement with AWE, where we oversee maintenance of the UK’s nuclear warhead arsenal. Nobody could be involved in this work without asking themselves questions around the ethics of working on nuclear warheads. The reason why we are proud to be part of the AWE operation is that the UK’s possession of nuclear weapons has been an established part of the country’s defence policy for decades; it has had the support of every Government elected since 1945; it has been repeatedly shown to have the support of the majority of people in the UK; and we believe that we can and do contribute to the safety and efficiency of AWE. We understand that some people may object to our involvement in this area, but we believe it is appropriate for our Company to work with our largest customer on its most important strategic programme.

Our approach to reporting on our environmental, social and governance responsibilities

We strive to ensure that our reporting is as comprehensive and informative as possible, aligned to the principal interests of our key stakeholder groups, whilst holding ourselves to account for mitigating risks and driving meaningful improvements with transparency.

Our approach to reporting across our CR framework is determined not only by specific reporting obligations but also to provide insight into what matters most to our business and our stakeholders and to share the progress we are making in each area. This provides assurance that we are properly addressing our environmental, social and governance (ESG) responsibilities and communicating our position and performance across ESG criteria.

We recognise that, in common with most other public companies, we are on a journey as far as ESG reporting is concerned. The ESG landscape is evolving at a rapid rate, and we will work to keep our own reporting at a level which we believe is appropriate for our business and useful for our stakeholders.

This year, we have introduced the following new elements into our reporting:

- a simple guide to how our principal areas of responsibility align to ESG criteria and where we perceive that we are contributing to the United Nations Sustainable Development Goals (UN SDGs) (see next page); and
- an overview of our approach to determining where we operate, what we do and who we serve (see pages 89 to 90).

We are also conducting a detailed review of the ESG reporting landscape as it applies to our business and stakeholders, which will inform the evolution of our reporting in the future, including targeted exploration of which external sustainability standards we report against. This will include consideration of the Global Reporting Initiative (GRI) standards and the Task Force on Climate-related Financial Disclosures, among others.

Our contribution to the United Nations Sustainable Development Goals

The UN SDGs are one of a number of initiatives and goals that help inform our thinking and approach. We recognise that positive relationships can be drawn between the majority of the UN SDGs, our operations and the action we take to deliver on our ESG commitments. For example:

- where we operate marine-based services, we are mindful of our impact on the seas and oceans, which contributes to UN SDG 14, 'Life below water';
- where we provide catering in our hospitals, we focus on meeting the specific nutritional needs of all patient care groups, reducing the risks of malnutrition and enhancing care outcomes, which contributes to UN SDG 2, 'Zero hunger'; and
- throughout our business, our local contributions to individual charities and communities support a multitude of causes that contribute to UN SDGs.

However, in order to most appropriately define the relationship between our work and the UN SDGs, we have chosen to highlight here those goals where we perceive that we are making contributions. All of these are underpinned by our Values and our commitment to behave with integrity and treat people with respect.

UN SDGs where we perceive that we are making contributions:

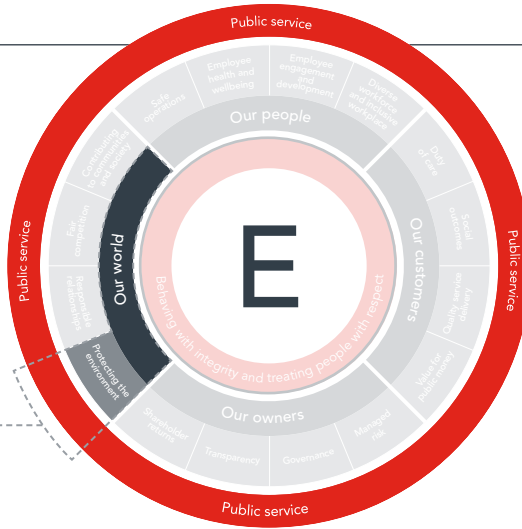
- Goal 1. End poverty in all its forms everywhere
- Goal 3. Ensure healthy lives and promote wellbeing for all at all ages
- Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- Goal 5. Achieve gender equality and empower all women and girls
- Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
- Goal 10. Reduce inequality within and among countries
- Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable
- Goal 12. Ensure sustainable consumption and production patterns
- Goal 13. Take urgent action to combat climate change and its impacts
- Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Corporate Responsibility continued

Our approach to reporting on our ESG responsibilities continued

UN SDGs we contribute to through our commitment to limit our environmental impact

Our contribution is through limiting the impact of our operations on the environment through more sustainable business practice for our customers and wider stakeholders.

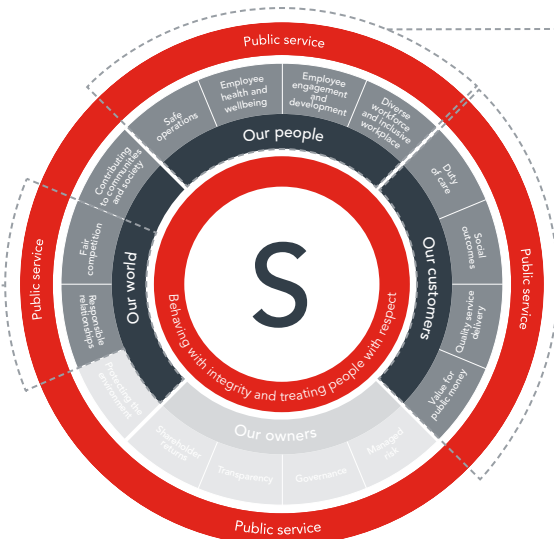


UN SDGs we contribute to as an employer

Our contribution is through how we attract, select, manage, develop and look after our employees, particularly through our focus on:

- the health, safety and wellbeing of our people;
- employee engagement and development; and
- building a diverse workforce and creating inclusive workplaces.

For additional information about our people and how we support and enable them, please see our People Report at www.serco.com/about/people-report.



UN SDGs we contribute to as a public service provider

Our contribution is through the services we provide to citizens and society, and how we provide them, particularly through our focus on:

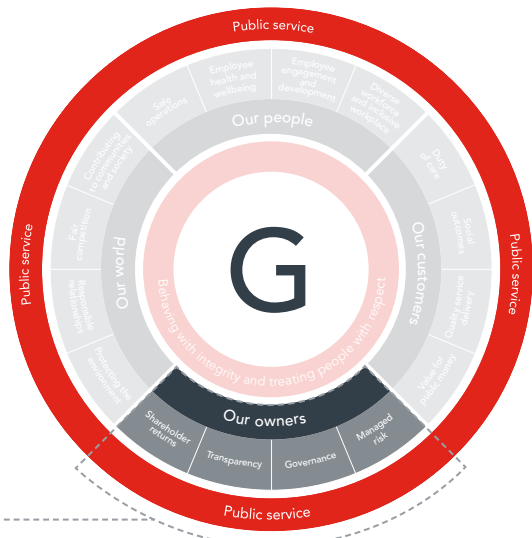
- the health, safety and wellbeing of the public and making a real difference to people's lives; and
- helping governments to raise standards of public service whilst enabling them to deliver better for less.



UN SDGs we contribute to as a participant in global industry, infrastructure and economy

Our contribution is through how we manage, grow and govern the business, particularly through our focus on:

- protecting stakeholder interests and creating long-term, sustainable value;
- effective and transparent direction, control and assurance of the business at all levels; and
- ethical standards and sustainability throughout the business and our supply chain.



Key Performance Indicators

		2015	2016	2017	2018	2019	2018 vs 2019	Var %	Notes
Our Values									
Employee engagement: Our Values	15–17: % 18–19: Avg. score	77	79	81	81	82	1	1.2	1, 2
Behaving with integrity and treating people with respect									
Employee engagement: Business Integrity	15–17: % 18–19: Avg. score	69	69	69	73	75	2	2.7	1, 2
Upheld cases of corrupt behaviour	Number	0	0	0	0	0	0	—	
Upheld cases of human rights violations	Number	0	0	0	0	0	0	—	
Speak Up cases:									
Investigated	%	96	97	90	94	92	-2	-2.1	3
Corrective action taken	%	63	53	42	54	52	-2	-3.7	
Disciplinary action taken against one or more individuals involved in a case	%	24	16	9	18	24	6	33.3	
Dismissal of one or more individuals involved in a case	%	6	6	5	11	8	-3	-27.3	
Closed within three months	%	48	64	89	75	89	14	18.7	
Speak Up: cases closed (substantiation rate)	Number (%)			450 (43%)	498 (40%)	454 (37%)	-44	-8.8	
Our people									
Safe operations									
Employee engagement: Safety	15–17: % 18–19: Avg. score	71	73	75	77	79	2	3	1, 2
Lost Time Incident Frequency Rate	Per 1m hrs worked	6.16	5.01	4.41	5.30	5.69	-0.39	-7	4, 5
Lost Time Incident Severity Rate	%	17.46	22.53	23.74	27.80	23.38	4.42	16	4
Major Incident Frequency Rate	Per 1m hrs worked	0.43	0.40	0.45	0.50	0.39	0.11	22	4, 6
Physical Assault Frequency Rate	Per 1m hrs worked	7.32	7.04	8.96	13.13	8.09	5.04	38	7, 8
Serious Physical Assault Frequency Rate	Per 1m hrs worked	0.50	0.95	0.87	1.32	0.63	0.69	52	7, 8
Prosecutions	Number	1	0	0	0	0	0	—	9
Fines paid	£'000	200	0	116	0	0	0	—	10
Employee health and wellbeing									
Proportion of days lost to sickness	%	3.2	3.2	3.1	12.3	5.2	7.1	57.7	11
Employee engagement and development									
Employee engagement	15–17: % 18–19: Avg. score	53	54	56	67	71	4	5.9	2
People manager engagement	15–17: % 18–19: Avg. score	59	62	65	70	73	3	4.3	2

Corporate Responsibility continued

Key Performance Indicators continued

		2015	2016	2017	2018	2019	2018 vs 2019	Var %	Notes
Employee engagement and development <small>continued</small>									
Leadership engagement	15–17: % 18–19: Avg. score	55	72	71	69	77	8	11.6	2
Employee engagement: Learning & Development	15–17: % 18–19: Avg. score	46	48	49	60	64	4	6.7	1, 2
Staff turnover	%	32.8	33.8	30.6	27.0	29.3	-2.3	-8.5	
Diverse workforce and inclusive workplace									
12									
Employee engagement: Diversity & Inclusion	15–17: % 18–19: Avg. score	67	69	70	74	79	5	6.8	1, 2
Number of women:									
Serco Group plc Board	Number (%)	3 (30.0)	2 (22.2)	3 (30.0)	3 (33.3)	3 (33.3)	0	—	13
Executive Committee and Direct Reports	Number (%)	13 (16.7)	12 (17.1)	15 (21.7)	28 (31.8)	24 (31.6)	-4	-14.3	13
All other employee levels	Number (%)	21,165 (42.6)	18,798 (41.9)	18,129 (41.6)	18,960 (42.4)	20,896 (43.1)	1,936	10.2	
Number of men:									
Serco Group plc Board	Number (%)	7 (70.0)	7 (77.8)	7 (70.0)	6 (66.7)	6 (66.7)	0	—	13
Executive Committee and Direct Reports	Number (%)	65 (83.3)	58 (82.9)	54 (78.3)	60 (68.2)	52 (68.4)	-8	-13.3	13
All other employee levels	Number (%)	28,531 (57.4)	26,054 (58.1)	25,435 (58.4)	25,757 (57.6)	27,634 (56.9)	1,877	7.3	
Number of employees with disclosed disabilities	Number (%)	468 (1.3)	516 (1.2)	425 (1.0)	343 (0.8)	847 (1.7)	504	146.9	
Our world									
Fair competition									
Upheld cases of anti- competitive behaviour	Number	0	0	0	0	0	0	—	
Responsible relationships									
Third-party due diligence screening:									14
Third parties validated	Number	—	—	28,066	7,867	5,253	2,614	33.2	
Third parties pending review	Number	—	—	1,143	191	1,092	901	471.7	
Third parties disqualified	Number	—	—	3	1	0	-1	-100	15
Protecting the environment									
16									
Carbon dioxide equivalent (Scope 1+2)	tCO ₂ e	298,986	291,883	253,655	259,814	266,894	-7,080	-2.7	
UK	tCO ₂ e	—	—	189,059	191,329	193,387	-2,058	-1.1	17
Rest of world	tCO ₂ e	—	—	64,596	68,485	73,507	-5,022	-7.3	18
Scope 1 – Combustion of fuels and operation of facilities	tCO ₂ e	162,197	182,819	174,289	176,254	181,413	-5,159	-2.9	
UK	tCO ₂ e	—	—	164,663	169,759	175,681	-5,922	-3.5	19
Rest of world	tCO ₂ e	—	—	9,626	6,496	5,732	764	11.8	
Scope 2 – Grid electricity purchased for own use (location-based)	tCO ₂ e	136,789	109,064	79,366	83,560	85,481	-1,921	-2.3	

		2015	2016	2017	2018	2019	2018 vs 2019	Var %	Notes
UK	tCO ₂ e	–	–	23,900	21,308	17,707	3,601	16.9	20
Rest of world	tCO ₂ e	–	–	55,466	62,252	67,774	-5,522	-8.9	
Energy consumption used to calculate Scope 1+2 emissions	Mwh	–	–	873,287	891,931	918,740	-26,809	-3.0	21
UK	Mwh	–	–	763,268	772,007	792,086	-20,079	-2.6	
Rest of world	Mwh	–	–	110,019	119,924	126,654	-6,730	-5.6	
Headcount intensity (Scope 1+2)	tCO ₂ e/FTE	5.16	5.98	5.56	5.80	5.87	-0.07	-1.2	22
Carbon Disclosure Project	Score	99%	B	B	C	C	—	—	23
Prosecutions	Number	0	0	0	0	0	0	—	
Fines paid	£'000	0	0	0	0	0	0	—	
Enforcement notices	Number	0	0	0	0	0	0	—	

Notes:

Performance is based on data reported as at 17/02/20, unless otherwise stated. Additional data may arise after this date. Where this occurs, numbers will be corrected in the following year's report.

All data is for the total Group unless otherwise stated. All data excludes joint ventures and historical BPO data to enable like-for-like comparison. Our private sector offshore BPO business was sold in December 2015.

Current performance levels are in line with benchmark targets for the geographies and markets in which we operate. However, we continue to try to improve them. Please refer to our full Corporate Responsibility Report for Group targets. Other targets are managed at local and regional levels.

1. Represents employee engagement scores per one or more specific questions within our employee engagement survey.
2. Applies to all data from our 'Viewpoint' employee engagement survey. In 2018, our methodology for calculating employee engagement changed, aligned to our new survey provider. Pre-2018, engagement results represent the proportion of engaged employees expressed as a percentage. As of 2018, engagement scores represent the average response, with maximum potential scores of 100. It is not possible to adjust all our historic data to restate to the new methodology. However, analysis performed by our new survey provider indicates that engagement levels from 2017 to 2018 remained broadly stable.
3. Where anonymous cases provide insufficient information, we are unable to investigate.
4. A review of workers compensation insurance in Asia Pacific and Americas identified misalignment between reported incidents data and that held by insurers. Definitions have been aligned and historical data corrected (2015 – 2018). Correction in incident numbers has also impacted incident severity rate.
5. Slips and trips remains the most common cause of Lost Time Incidents outside those related to violence and aggression. This has been an area of focus throughout 2019 and while there has been improvement within Health and Transport, challenges remain within Citizens Services, Defence and Justice & Immigration. This will remain an area of focus for 2020.
6. Improvements primarily result from a continued focus on reducing violence and aggression within the UK custodial environment and reductions in associated Serious Physical Assaults.
7. A review of reporting accuracy against Group Standard Operating Procedure definitions has resulted in minor adjustments to historical data (2015 – 2018). 2019 has been checked. Significant improvement in 2019 against 2018 reflects the impact over time of a range of initiatives. This work will continue in 2020.
8. Significant improved performance following a lot of effort and several initiatives throughout 2019. Several initiatives established in 2018 were widened and a relationship between UK & Europe and Asia Pacific Justice & Immigration teams was established, seeking to share best practice. Initiatives have included the 'Key worker' scheme, five-minute interventions, supported by use of batons and body worn cameras. This work will continue into 2020 with further rollout of devices to support control and restraint and establishment of drug misuse teams to reduce the impact of illegal substances on staff.
9. 2015 data relates to an incident in 2011.
10. 2017 data relates to Dubai Metro: February 2017 (500,000AED) public hazard relating to escalator maintenance by a sub-contractor – fine paid by sub-contractor and revised work instructions implemented; August 2017 (100,000AED) unsafe lifting operations relating to glass movement in station – revised work instructions implemented.
11. Increase in 2018 reflects introduction of new absence management system and subsequent planned improvement in absence capture.
12. Diverse workforce data is representative only of employees for whom relevant data is available.
13. As of 2018, this data is based on that submitted to the annual Hampton-Alexander Review, UK. For 2019, the data was submitted in June 2019.
14. 2018 and 2019 data reflect business as usual addition of third parties following initial due diligence review of all third parties completed in 2016 and 2017.
15. Additional organisations disqualified because they are no longer used by Serco or there is a gap of 2+ years in the relationship: 173 in 2018; 136 in 2019.
16. Please refer to our full Corporate Responsibility Report for a full breakdown of our environmental performance. Our reporting year for greenhouse gas emissions is one quarter behind our financial year, namely 1 October 2018 to 30 September 2019. We quantify and report to ISO 14064-1 2012, using an operational control approach to define our organisational boundary. The classification of reporting boundaries is set out in detail in our Basis of Reporting document, available on our website, www.serco.com. We report all material emission sources for which we consider ourselves responsible and have set our materiality threshold at 5%. Units reported: Mwh = megawatt hours of energy; tCO₂e = Tonnes Carbon Dioxide Equivalent; FTE = Full Time Employee.
17. Reduction of c.1,000 tCO₂e from NorthLink Ferries contract. Increase of c.3,000 tCO₂e from increased operations in Future Provision of Marine Services contract.
18. New Hong Kong tunnel contract added c.4,500 tCO₂e. Increased scope of reporting in Americas added c.1,000 tCO₂e.
19. UK & Europe reporting system changed for company car / private mileage, more precision to identify type of fuel / size of vehicle which has changed conversion factors applied.
20. UK electricity conversion factors reduced by 10%.
21. 2017 and 2018 restated to exclude Scope 3 electricity.
22. 2018 re-stated to 5.80 from 5.53 to include Middle East residential consumption.
23. New scoring mechanism introduced in 2015.

Section 172 (1) Statement

Board Engagement with Stakeholders

The Board is committed to enhancing engagement with all our stakeholders. In addition to the methods of engagement described over the following pages, the interests of our stakeholder groups are considered by the Board through a combination of:

- Regular reports and presentations at scheduled Board and Committee meetings, including operational reports presented by the Chief Executive and updates from senior management on health and safety, ethics and compliance, people matters (including employee engagement) and investor feedback.
- A rolling agenda of matters to be considered by the Board and Committees throughout the year, including a strategy review which considers the purpose of the Company and strategy to be followed by the Group, which is supported by a budget for the following year and a medium-term financial plan.
- Formal consideration of large bids and other matters, including any factors which are relevant to major decisions taken by the Board through the year in line with the regularly reviewed Delegation of Authority and Terms of Reference for each Board Committee.
- The risk management process and other routine Audit Committee, Corporate Responsibility Committee, Group Risk Committee and Remuneration Committee agenda items, as described later in this report on pages 109 to 121 and 124 to 129.

As with other large and complex companies, the Directors fulfil their duties partly through a governance framework that delegates day-to-day decision-making to the Executive Directors. The Board recognises that such delegation needs to be much more than simple financial authorities. You will find detailed in the Annual Report a summary of the governance structure which covers the values and behaviours expected of our employees; the standards they must adhere to; how we engage with stakeholders; and how the Board looks to ensure that we have a robust system of control and assurance processes (see pages 76 to 95).

Our Corporate Responsibility (CR) framework is structured around our key stakeholders and we summarise our progress and performance in delivering our CR agenda in the CR section of this Annual Report on pages 76 to 95.

The following disclosure describes how the Board has had regard to the matters set out in section 172(1) (a) to (f), and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

Stakeholder group	How the Board engages with stakeholders	Key topics of engagement	How stakeholder interests influence Board discussions and principal decisions
<p>Our Owners</p> <p>Engagement with and receiving the support of our owners is a key factor in achieving our ambitions. We seek long-term relationships based on transparency, honesty and clarity – all of which are critical for building trust.</p> <p>Details of notifiable interests in the shares of the Company are set out on page 153 of the Directors' Report.</p> <p>Stakeholder concerns</p> <p>Our owners are concerned with a broad range of issues, including operational and financial performance, developments in our markets for public services, the execution and delivery of our strategy, the sustainability of our business, and the impact Serco has on the communities we serve and the environment in which we operate.</p> <p>Our performance developments are comprehensively assessed in this Annual Report, including the Key Performance Indicators section and the broader discussion and analysis in the Strategic Report, Directors' Report and Financial Statements. Further metrics are also set out in our Corporate Responsibility report on pages 93 to 95.</p>	<ul style="list-style-type: none"> • Owners of the business receive our regular trading updates in addition to the half- and full-year results reports and accompanying presentations. • Attendance by the Chief Executive and Group Chief Financial Officer and other members of the Serco senior management team to discuss relevant developments in the business at our post-results road shows and programme of investor conferences. • Regular updates with proxy advisers and major shareholders where we seek views and feedback on specific topics. • We issued more than 30 other announcements regarding contract awards or corporate transaction news throughout the year, which also drives ad hoc engagement with investors. • The Investor Relations team provides regular reports to the Board. • Board attendance at the AGM provides the opportunity to communicate with private and institutional investors and for them to raise any other topic they feel relevant. 	<ul style="list-style-type: none"> • Serco's performance against our strategy. • Developments in our customer markets and the competitive landscape. • Opportunities for acquisitions. • Capital allocation considerations. • Implementation of the Remuneration Policy. • Market soundings with major shareholders sought their views and support for the Naval Services Business Unit (NSBU) acquisition in May 2019. 	<ul style="list-style-type: none"> • Shareholders' opinions were, and continue to be, taken into consideration when developing and reviewing the Company's strategy and performance, Directors' remuneration policy, and our capital structure and dividend policy. • The feedback received from major shareholders informed the Board's decision to approve the NSBU acquisition during 2019. We subsequently received very strong demand for shares and share price support in the Equity Placing we launched to part-fund the transaction. • The Board's decision to recommend resuming the payment of dividends to shareholders took account of the views expressed by investors regarding their support to maintaining an appropriate level of dividend cover, the potential alternative uses of capital to generate incremental value for shareholders and the desire to see Serco maintain financial flexibility and a strong balance sheet. • Our engagement activities and level of transparency with shareholders was also recognised by the investment community during the year, including the receipt of an award from the IR Society for 'Best IR relating to a Corporate Transaction'.

Section 172 (1) Statement continued

Board Engagement with Stakeholders continued

Stakeholder group	How the Board engages with stakeholders	Key topics of engagement	How stakeholder interests influence Board discussions and principal decisions
<p>Our People</p> <p>Our people are at the heart of our business and, as a Company, we are the sum of the efforts, energy and values of our people, who are critical to achieving our mission of improving the lives of citizens and service users around the world.</p> <p>Stakeholder concerns Through our annual Viewpoint survey and other dialogue with our colleagues, we know that our people feel passionately about the place they work and the services that they deliver. As you would expect for a business as diverse as Serco, our colleagues express their opinions across a very wide range of areas. However there are currently three main areas of concern raised by colleagues on a regular basis: connection and collaboration within Serco, individual recognition, and having a voice in the decision making within business.</p> <p>Our People Report, available on our website, sets out the work we are undertaking to make Serco a better, safer and more inclusive place to build a career.</p>	<ul style="list-style-type: none"> • We seek feedback from our people annually through the Company-wide engagement survey, Viewpoint, supplemented with more frequent 'pulse' surveying in selected parts of the business. • Kirsty Bashforth, Non-Executive Director, was appointed as our lead representative on the Board for Employee Voice and reports the feedback received from our people at engagement activities attended throughout the year as part of the Employee Voice and Colleague ConneXions initiatives. • We introduced the Serco Inclusion Hub during the year to provide a platform for our employee networks, Serco Inspire, Serco Unlimited, Serco Embrace and In@Serco, to better coordinate and collaborate. Regular reports on the activities of each network are received by the Board through the regular People reports provided by the Group HR Director. • Members of the Board meet with employees during contract visits and with management at Board meetings and events, such as Town Hall meetings, and attendance at Divisional and Leadership Conferences during the year. 	<ul style="list-style-type: none"> • Global focus areas for diversity and inclusion: Gender, Disability, Multicultural and LGBT+. • Matters impacting employees on the frontline of our contracts. • Talent and leadership succession. • Integration of staff transferring to Serco as part of the NSBU acquisition. • Review of pension provisions. • Feedback received from employees through the Viewpoint survey and the actions proposed by management in response. 	<ul style="list-style-type: none"> • The Board considered the impact to employees of restructuring activities that have taken place during the year, such as the IT and Procurement Transformation programmes, the development opportunities that potential acquisitions and contract bids would afford our employees, and the impact on the Company's ability to attract and retain staff. • The Board endorsed the introduction of the Employee Voice and Colleague ConneXions initiatives, and the Serco Inclusion Hub. • The Board approved management's recommendations to appoint an independent chair of the Pensions Policy Committee, and the closure of the existing stakeholder plan and its replacement with a new workplace pension. • Discussions at the Board have been better informed due to the deeper understanding of the work undertaken by our employees, which has been developed during contract visits undertaken by the Board in each Division, At these contract visits and events, the Directors meet and hear directly from Serco employees on a variety of topics.

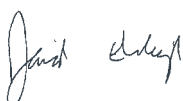
Stakeholder group	How the Board engages with stakeholders	Key topics of engagement	How stakeholder interests influence Board discussions and principal decisions
Our Customers			
<p>As an international B2G business our customers are many and varied, consisting of local, regional, national governments and agencies, those receiving our services at a contract level versus those procuring the services, and those who use the services we provide on behalf of our customers.</p> <p>Our business is built on our ability to retain existing and win new customers. As such, understanding, engaging with, and responding to customer needs is a critical priority.</p> <p>Stakeholder concerns While the demands vary significantly, at the most basic level our customers seek to procure from us quality public service delivery, at a price they feel represents value for money. This requires us to have both deep understanding of their sector specific needs, as well as technical and commercial nous as to how to deliver public services most efficiently.</p> <p>In addition, there are significant regional and sector specific priorities, that vary enormously and also change over time. For example, the increasing demand for the employment of nationals in the Middle East, the increasing drive for social value outcomes in the UK, and the importance of supporting aboriginal communities more effectively in Australia. It is critical that we maintain a detailed appreciation of these so that we can respond accordingly.</p>	<ul style="list-style-type: none"> • The Chief Executive and Group Chief Financial Officer meet directly with different customers across all our regions on a regular basis. • Members of the Board regularly, and throughout the year, visit our different international operations and contracts where they engage directly with customers. • Our 'Operational Report' gives updates and feedback on our markets, customers, and operational performance to the Board at every meeting. Our Divisional Chief Executives present regularly to the Board on the same. Other colleagues also present regularly on operations, customer satisfaction and Business Development. • Our annual Strategy Planning process is a bottom-up exercise including every part of the business, taking into account both existing and future customer needs and trends over the next 5 years. This process culminates in a day-long Board Strategy Day during which the Board debate current and future customer requirements at length. • Attendance by the Board at Serco-led and other industry events, including events run by the Serco Institute on public policy priorities such as Social Value, which customers both attend and speak at. 	<ul style="list-style-type: none"> • Customer and Serco strategy and operational performance. • The procurement processes employed by key customers, such as the Outsourcing Playbook in the UK. • The potential impact to the relationship with customers following the conclusion of the Serious Fraud Office (SFO) investigation. • New and future customer requirements and trends, such as focus on environmental, social, and governance matters. • Specific business development opportunities. • The overall performance of the sector. • Serco innovations in response to customer trends and needs. 	<ul style="list-style-type: none"> • Customer insight demonstrating the attractiveness of the market and our capabilities were key in giving the Board confidence in the acquisition of Alion's NSBU in 2019. • Amongst other things, our substantial remediation, prompt self-disclosure of the DPA conduct and co-operation with the SFO throughout the investigation resulted in the decision by the SFO to conclude the investigation with a Deferred Prosecution Agreement • The Board deployed their customer insight to positive effect in decisions relating to our submission of our largest bids over the year and the nature of our proposals, which they scrutinise. • Following customer engagement and insight gathered from the annual strategy process, the Board provided guidance on our strategy, strategic decisions, as well as resource allocation, and prioritisation across our markets and customers in 2019-20. • The Board continued to drive the Executive Directors to act on new customer trends and priorities as a result of engagement in 2019. For example, our plans on sustainability, social value, and voluntary, community, and social enterprise organisations. • The Board deployed customer insight to input into our Global Centres of Excellence's plans for innovation and new adjacencies in 2019-20.

Section 172 (1) Statement continued

Board Engagement with Stakeholders continued

Stakeholder group	How the Board engages with stakeholders	Key topics of engagement	How stakeholder interests influence Board discussions and principal decisions
<p>Our Suppliers</p> <p>Suppliers have an important role to play in Serco being a superb provider of public services. We aim to build honest, respectful and transparent relationships with suppliers who follow regulatory compliance and share our ethical standards and commitment to sustainability throughout the supply chain.</p> <p>Stakeholder concerns Our suppliers are concerned with the ease of doing business with Serco, responsible business practices, conduct and ethics, driving innovation, building long-term relationships, fair business terms, and receiving prompt payment.</p>	<ul style="list-style-type: none"> • Direct engagement via the Chief Executive and Group Chief Financial Officer. • Reports concerning operational matters from senior management on specific business units. • Regular reports from the Group Director, Enterprise Risk, the Group Director, Business Compliance and Ethics, and the Director of Procurement concerning management and assessment of suppliers. • Regular reports from the Chief Financial Officer, including creditor payable days. 	<ul style="list-style-type: none"> • Due diligence processes. • Supplier relationships. • Supply chain management. • Fair payment practices. 	<ul style="list-style-type: none"> • The management of suppliers has been discussed at the Board and the Procurement Transformation programme was endorsed in recognition of the need to improve supplier management processes. • Key risks in relation to the supply chain were considered when approving the approach to due diligence of suppliers, which was revised during the year. • Feedback on the performance of key financial suppliers was considered periodically during the year, with performance being discussed at the Audit and Group Risk Committees, and feedback provided to the Board concerning the discussions.
<p>Our Communities and Environment</p> <p>Our communities comprise those living and working in close geographic proximity to our operations, those for whom we provide services on behalf of our government customers, and those who represent the needs of our communities, including charities and local government.</p> <p>Operating amongst and on behalf of our communities, we strive to maintain a deep understanding of the complex social challenges that impact them, whilst recognising our responsibility to contribute to the sustainability and wellbeing of society and the economy wherever we operate.</p> <p>We are also committed to limiting the impact of our operations on the environment through more sustainable business practices for our customers and stakeholders, including our communities.</p> <p>Stakeholder concerns Our communities are primarily concerned with the impact of our operations on the local society, the economy, and the environment - locally and beyond - and that we operate and conduct our business as a respectful and responsible neighbour.</p>	<ul style="list-style-type: none"> • Regular operational reports from the Chief Executive. • Reports concerning operational matters from senior management on specific business units. • Meetings with users of the services we provide on behalf of our customers during contract visits by the Board. • Attendance by the Board at Serco Institute events. 	<ul style="list-style-type: none"> • Further information on our engagement concerning Corporate Responsibility (CR) matters is provided in the CR Report on pages 76 to 95. • Political environment. • Impact to the community of pursuing business development opportunities. 	<ul style="list-style-type: none"> • Careful consideration was given to issues under our immigration contracts in the UK and Australia, including asylum seekers who are housed under the Home Office COMPASS contract and the situation of managing those individuals that overstay beyond the permitted terms of their asylum application. • Regular discussion on the issues in prisons under our justice contracts in the UK, Australia and New Zealand including physical assaults, violence and impact on communities. • Meeting with users of the services we provide on behalf of our customers during contract visits by the Directors facilitates a deeper discussion of operational matters. In considering business development proposals from senior management, this also enables the Board to better assess service user needs and the ability to provide the services under the contract to the standards expected, and identify any gaps in capabilities.

Approved by the Board of Directors and signed on its behalf by:



David Eveleigh
Group General Counsel and Company Secretary
25 February 2020

Corporate Governance

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Board of Directors



Sir Roy Gardner

Chairman



Appointed to the Board

June 2015 (Chairman since July 2015)

Skills and experience

Sir Roy Gardner is an experienced chairman with over 40 years' experience in both executive and non-executive roles in a variety of businesses in the services, energy, industrial, chemicals, electronics, insurance and leisure sectors. He is a Fellow of the Chartered Association of Certified Accountants and the City and Guilds Institute and has an Honorary Doctorate from Thames Valley University.

Previous roles

Chairman of Compass Group PLC, Connaught plc and Manchester United and Plymouth Argyle football clubs. Chief Executive of Centrica plc, Managing Director of GEC-Marconi Limited and a Director of GEC plc, Senior Independent Director of William Hill plc and a Non-Executive Director of Willis Group Holdings Limited and Laporte plc. Chairman of the Advisory Board of the Energy Futures Lab at Imperial College London, the Apprenticeship Ambassadors Network and Mainstream Renewable Power Limited and Senior Adviser to Credit Suisse.

Current external commitments

Chairman of Pressure Technologies plc. Senior Independent Director of Mainstream Renewable Power Limited. Chairman of the Board of Governors at St. Albans School. Chairman of R.A.G. Associates Limited.



Rupert Soames OBE

Group Chief Executive Officer



Appointed to the Board

May 2014

Skills and experience

Rupert Soames is an experienced chief executive officer having held the role for nearly 20 years in other companies before joining Serco as Chief Executive in 2014. He studied Politics, Philosophy and Economics at Oxford University, where he is now a visiting fellow, and was President of the Oxford Union.

Previous roles

Chief Executive of Aggreko plc and the Banking and Securities Division of Misy plc. Senior Independent Director and a member of the Remuneration, Nomination and Audit Committees of Electrocomponents plc.

Current external commitments

Senior Independent Director and a member of the Audit, Nomination and Remuneration Committees of DS Smith Plc.



Angus Cockburn

Group Chief Financial Officer



Appointed to the Board

October 2014

Skills and experience

Angus Cockburn is a chartered accountant with considerable experience gained in a variety of sectors before joining Serco in 2014. He has an MBA from the IMD Business School in Switzerland, is an Honorary Professor at the University of Edinburgh and a member of the Institute of Chartered Accountants of Scotland.

Previous roles

Chief Financial Officer and Interim Chief Executive of Aggreko plc, Managing Director of Pringle of Scotland and senior finance positions at PepsiCo Inc including Regional Finance Director for Central Europe. Non-Executive Director of Howdens Joinery Group plc and Senior Independent Director and a member of the Audit, Remuneration and Nomination Committees of GKN plc.

Current external commitments

Senior Independent Director, Chair of the Audit Committee and a member of the Nomination and Remuneration Committees of Ashted Group plc.



John Rishton

Senior Independent Non-Executive Director



Appointed to the Board

September 2016

Skills and experience

John Rishton has considerable experience in chief executive and chief financial officer roles gained from a variety of companies during a period of around 40 years. He has a BA in Economics from Nottingham University and is a Fellow of the Chartered Institute of Management Accountants.

Previous roles

Chief Executive of Rolls-Royce Group plc, Chief Executive and President of the Dutch international retailer, Royal Ahold NV (and prior to that, its Chief Financial Officer) and Chief Financial Officer of British Airways plc.

Current external commitments

Non-Executive Director and Chair of the Audit Committee of Unilever plc. Non-Executive Director and Chair of the Audit Committee of Informa plc. Non-Executive Director of Associated British Ports.



Kirsty Bashforth

Independent Non-Executive Director



Appointed to the Board

September 2017

Skills and experience

Kirsty Bashforth is an experienced board member within the construction, services, consumer goods and education industries, with expertise in change management, safety and risk management, organisational culture and leadership. She has an MA (Cantab) in Economics from the University of Cambridge.

She has been running her own corporate advisory business, QuayFive Limited, since 2016.

Previous roles

Senior executive at BP plc having spent over 24 years with the company in a variety of commercial roles, including Group Head of Organisational Effectiveness, where she led BP's global agenda on culture, diversity and change management.

Non-Executive Director, Chair of the Remuneration and People Committee and a member of the Audit & Risk and Reputation & Ethics Committees of GEMS MENASA Holdings Limited. Governor of Leeds Beckett University and Ashville College.

Current external commitments

Non-Executive Director, Chair of the Safety, Health and Environment Committee and a member of the Nomination, Remuneration, Risk Management and Audit Committees of Kier Group plc. Non-Executive Director and a member of the Remuneration and Good4Business Committees of PZ Cussons plc. Non-Executive Director and Chair of the Remuneration Committee of Diaverum AB. Director of QuayFive Limited.

Key to Committee membership (Red highlight denotes Chair)**A** Audit Committee**N** Nomination Committee**R** Remuneration Committee**C** Corporate Responsibility Committee**GR** Group Risk Committee**Eric Born**

Independent Non-Executive Director

A N R C GR**Appointed to the Board**
January 2019**Skills and experience**

Eric Born is an experienced chief executive officer with experience in the aviation services, logistics and retail sectors. He is currently Chief Executive Officer of Swissport International Limited which he joined in 2015.

He has an MBA from the University of Rochester, New York, and is a graduate of the University of Applied Sciences in Zurich.

Previous roles

Chief Executive Officer of Wincanton plc and Non-Executive Director and member of the Audit, Nomination and Remuneration Committees of John Menzies plc.

Current external commitments

Chief Executive Officer of Swissport International Limited.

**Ian El-Mokadem**

Independent Non-Executive Director

A N R C GR**Appointed to the Board**
July 2017**Skills and experience**

Ian El-Mokadem is an experienced chief executive officer with international experience in business transformation and in acquisitions and disposals.

He has a BSc (Hons) in Economics and Statistics from University College London and an MBA from INSEAD.

Previous roles

Chief Executive Officer of V. Group and Exova Group plc, Group Managing Director, UK & Ireland of Compass Group plc and senior management positions with Centrica plc and the global management consultancy, Accenture.

Current external commitments

Director of Roegate Consulting Limited.

**Rachel Lomax**

Independent Non-Executive Director

A N R C GR**Appointed to the Board**
March 2014**Skills and experience**

Rachel Lomax has significant experience of government and economic policy.

She has an MA in History from Cambridge University and an MSc in Economics from the London School of Economics.

Previous roles

Deputy Governor, Monetary Stability, Bank of England, and a member of the Monetary Policy Committee, Permanent Secretary in the Department for Transport, Department for Work and Pensions and the Welsh Office, and senior posts at the Cabinet Office, HM Treasury and World Bank.

Senior Independent Director and Chair of the Conduct and Values Committee at HSBC Holdings plc and a Trustee/Board Member of Imperial College, London.

Director of SETL Development Limited.

Non-Executive Director of Heathrow Airport Holdings Limited.

Current external commitments

Non-Executive Director of Resolution Life Group Holdings LP.

Governor of the Ditchley Foundation.

Member of the Board of Bruegel.

Deputy Chair of the British Council.

**Lynne Peacock**

Independent Non-Executive Director

A N R C GR**Appointed to the Board**
July 2017**Skills and experience:**

Lynne Peacock has over 25 years' senior management experience in a range of roles including brand development, mergers and acquisitions, change management and business transformation.

She has a BA (Hons) in Business Studies.

Previous roles

Non-Executive Chair of Standard Life Assurance Limited and Non-Executive Director and a member of the Nomination and Governance Committees of Standard Life Aberdeen plc.

Non-Executive Director and Chair of the Audit Committee of Scottish Water.

Senior Independent Director, Chair of the Remuneration Committee and member of the Audit, Risk and Nomination Committees of Nationwide Building Society.

Non-Executive Director and a member of the Audit and Risk, Nominations and Remuneration Committees of Jardine Lloyd Thompson Group plc.

Chief Executive of Woolwich plc and National Australia Bank Limited's UK businesses.

Current external commitments

Non-Executive Director and Chair of the Remuneration Committee of Royal Mail plc.

Chair of Trustees of the Westminster Society for People with Learning Disabilities.

Corporate Governance Report

Chairman's Governance Overview

Sir Roy Gardner
Chairman



2019 Highlights

- Continued reinforcement of Committee membership with appointments to the Audit, Corporate Responsibility, Group Risk and Nomination Committees
- Further improvements to internal procedures to improve Board effectiveness following the external Board evaluation undertaken in 2018
- Implementation of "Employee Voice" initiatives
- Evolution of the remit of the Corporate Responsibility Committee

This report sets out how Serco is governed and the key activities of the Board of Directors in promoting effective governance during 2019. Further information on how the Company complied with the UK Corporate Governance Code during 2019 is set out on pages 122 and 123.

Dear Shareholders

I am pleased to present the Corporate Governance Report for 2019. The Board believes that good governance is key to the long-term success of the Group and is committed to achieving high standards of governance.

This year, we report against the UK Corporate Governance Code published by the Financial Reporting Council in July 2018 ("the Code"). I confirm that, during 2019, the Company has complied fully with the principles and provisions of the Code. Details of how the Company has complied with the Code are set out on pages 122 to 123.

One of the most significant changes to the Code affecting the Company is in respect of workforce engagement. As reported in last year's Annual Report, Kirsty Bashforth – a Non-Executive Director and the chair of our Corporate Responsibility Committee – was appointed as the lead "Employee Voice" representative.

There is also a greater focus on Environmental, Social and Governance ("ESG") factors.

You will see our approach to the increased focus on employee engagement, in particular "Employee Voice", and ESG factors, both as part of the evolution of the responsibilities of the Corporate Responsibility Committee and the Corporate Responsibility Framework in the Committee's report on pages 120 to 121 and the Corporate Responsibility section of the Strategic Report on pages 76 to 95.

In addition, and as I have referred to in my Chairman's statement, this is the first time we have included a s172 statement in our Annual Report and it shows how the Board has engaged with our stakeholders and its approach to the decisions it has made during the year.

During the year the Terms of Reference of each of the Board's Committees were thoroughly reviewed to ensure that they were appropriate to meet the requirements of the Code. As part of this review, the schedules of matters considered on an annual basis by the Board and each of its Committees were revised to ensure that all relevant matters are considered at the correct forum and that there are lines of communication between the Committees themselves and between each Committee and the Board.

Effectiveness

As Chairman, I am responsible for providing leadership to ensure that the Board operates effectively. I have been supported in this by all the Directors, in particular John Rishton who was appointed our Senior Independent Director on 1 January 2019. The annual reviews of Board effectiveness help the Board to consider how it operates and how its operations can be improved. This year, the review was undertaken internally and the findings of this review have provided us with ideas to further improve the manner in which the Board operates, which together with progress against recommendations from the externally facilitated evaluation undertaken in 2018, are set out on page 108.

Changes in the Board

As already reported, Eric Born joined the Board on 1 January 2019 and became a member of the Audit and Corporate Responsibility Committees. At the same time John Rishton assumed the role of Senior Independent Director and joined the Nomination Committee and Kirsty Bashforth was appointed Chair of the Corporate Responsibility Committee.

Following a review of the Board's Committees, Rachel Lomax was appointed a member of the Nomination Committee on 1 March 2019 and Kirsty Bashforth was appointed a member of the Group Risk Committee on 1 May 2019.

Contract site visits

Non-Executive Directors are encouraged to continually increase their knowledge of the operations of the Company, its customers, its employees, end users and the communities it works in. This includes visits to contract sites which enable them to witness the day-to-day service provided by our contract teams as well as meeting customers and other stakeholders, and holding "town hall" sessions to hear the views of our employees. The visits provide a deeper level of understanding of the risks and opportunities faced by our contract teams on a daily basis, together with the Group-wide challenges regarding the scale and variety of our operations. During the year, our Non-Executive Directors visited each of the Company's Divisions, attending over 30 site visits.

Members of the Board have also attended the Serco Leadership Programme which is run for our senior leadership teams, divisional leadership conferences, Serco Institute events, and training courses.

During site visits and visits to the Group's international offices, Non-Executive Directors take the opportunity to discuss issues with the wider workforce and senior management, including the management of the newly acquired NSBU business.

Diversity

The Board is committed to ensuring the development of gender and ethnic diversity amongst Serco's senior management population and annually reviews its recommendations on gender and ethnic diversity for senior management roles.

Whilst the Board has become more balanced over recent years, culminating in 33% gender diversity, we recognise we still have more to do, not least with regard to other areas of diversity at Board level. Whilst good progress is being made across the Group in all aspects of diversity and inclusion, sustainable change requires a long-term perspective and this remains a key focus for the Company.

More information is provided in the Nomination Committee Report on pages 118 to 119 and in the Strategic Report on pages 80 to 81.

Shareholder engagement

The Board continued to engage in an open and meaningful way with its shareholders during the course of 2019. In addition, I attend the results announcements in the City and meet many of our stakeholders and make myself available to our shareholders on a regular basis. I hope shareholders will take the opportunity to meet with Board members at the 2020 Annual General Meeting.



Sir Roy Gardner
Chairman

25 February 2020

Corporate Governance Report continued

Chairman's Governance Overview continued

What the Board has achieved in 2019

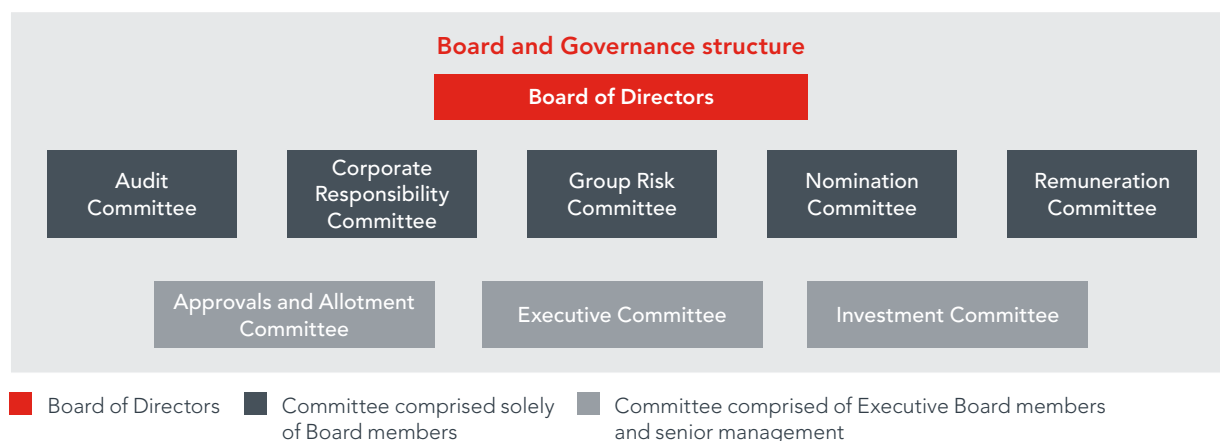
- Reviewed and challenged the strategy of the Group and supported management in the Group's strategic development.
- Received, discussed and reviewed regular reports from the Chief Executive Officer and Chief Financial Officer.
- Regularly reviewed financial performance.
- Reviewed and approved the NSBU acquisition, including a placing as part of the financing, meetings with the new management team as well as other merger and acquisition opportunities and a review of transition and integration activities.
- Reviewed and agreed budgets.
- Focused on the ongoing performance of the Group.
- Reviewed employee engagement including the introduction of "Employee Voice", as well as receiving and discussing regular People reports.
- Updated the Corporate Responsibility Framework to incorporate independent review recommendations.
- Evolved the Corporate Responsibility Committee to reflect evolution of the Company and to underpin the focus on Values as core to how the Company conducts its business.
- Embedded the Group Transformation Programme.
- Reviewed and challenged management on the progress of the Group's business development pipeline.
- Received regular legal and governance reports, including diversity and governance developments.
- Focused on and reviewed key individual material bids and acquisitions over the year.
- Continued to drive improvements in Health and Safety, including a review of initiatives to reduce violence in prisons.
- Changes to Board and Committee membership.
- Spent time with the Divisional management teams and met regularly with senior management responsible for the delivery of the Group's key opportunities and existing contracts, including over 30 contract visits and reviews over the year covering all of the Group's Divisions.
- Received operational "deep dives" from across the Divisions as part of the monitoring of the ongoing transformation and strengthening of the Group.
- Reviewed and challenged the Centres of Excellence.
- Considered succession planning both for the Board and the senior management team, including discussion on diversity.
- Reviewed the Gender Pay position.
- Reviewed, challenged and refreshed the Tax and Treasury Policy, including review of current and future financing.
- Engaged with the Company's stakeholders.
- Considered the UK political environment and its potential impact on the Company.
- Received regular reports from the Head of Investor Relations.
- Received regular reports on ethics, compliance and Health, Safety and Environment.
- Received detailed reports of the proceedings of each of the Board's Committees and approved recommendations where appropriate.
- Continued enhancement of risk management.
- Considered and implemented recommendations arising from Board performance evaluation.
- Focused on embedding the Serco Values within the Group.
- Reviewed and updated the schedule of matters reserved for the Board.
- Reviewed and updated the Terms of Reference of the Board Committees.
- Regularly reviewed the SFO investigation and approved the final DPA and Undertaking entered into with the SFO, and considered the action to be taken to ensure compliance with the DPA.
- Considered the Company's approach to sustainability and ESG factors.
- Received an update on the Company's pension schemes.

Board priorities for 2020

- Focus on the Company's approach to ESG factors.
- Continue to focus on employee engagement and, in particular, to monitor the effectiveness of new initiatives.
- Continue to assess and challenge the Group's strategy, including potential merger and acquisition opportunities.
- Continue to support and challenge improvements in contract execution and cost efficiency, seeking to ensure the utilisation of capabilities across the Group.
- Ongoing review and challenge of the bid pipeline and new business opportunities, together with the development of the Centres of Excellence.
- Continued focus on enhancing risk management.
- Focus on Board and Senior Management succession planning, including diversity.
- Further embedding of the Serco Values within the culture of the Group.
- Further review of Divisional operations and ensuring the ongoing transformation and strengthening of the Group.
- Continuing support of and challenge to management on embedding the Group's transformation initiatives.
- Continue to assess the Company's financing needs and other tax and treasury issues.
- Budget and financial performance reviews.
- Monitor changes to relevant legal, regulatory and governance areas.
- Continue to oversee employee engagement.
- Continued focus on governance developments and training.
- Continue to oversee ethics, compliance, safety, environment, health and wellbeing, with a specific focus on updating the environmental strategy.
- Implementation of recommendations arising from Board evaluations.
- Monitor and report on compliance with the DPA and Undertaking.
- Continue to monitor the Company's pension schemes.

Board and Governance

The Board has a comprehensive corporate governance framework, with clearly defined responsibilities and accountabilities to safeguard long-term shareholder value, which provides an effective platform to realise the Group's strategy.



The Company's governance structure is illustrated above. There is a schedule of matters reserved for the Board which is available on the Company's website. The Board has delegated certain of its responsibilities to the Audit, Corporate Responsibility, Group Risk, Nomination and Remuneration Committees, the terms of reference of each of which are also available on the Company's website. In addition, there is a Disclosure Group which meets to consider the disclosure of information to meet legal and regulatory obligations under the Market Abuse Regulation.

The Executive Committee is chaired by the Group Chief Executive and additionally comprises the Group Chief Financial Officer, Divisional Chief Executives, the Group General Counsel and Company Secretary, the Group HR Director and the Group Director of Strategy and Communications. The Committee has delegated responsibility from the Board to ensure the effective direction and control of the business and to deliver the Group's long-term strategy and goals.

The Investment Committee comprises the Group Chief Executive, the Group Chief Financial Officer, the Group General Counsel and Company Secretary and other members of the management team. It acts on behalf of the Board to review, monitor and approve bids, mergers, acquisitions and disposals and other corporate activity within specific authority limits delegated by the Board.

The Approvals and Allotment Committee comprises the Group Chief Executive, the Group Chief Financial Officer and the Group General Counsel and Company Secretary. This Committee acts on behalf of the Board between Board meetings in respect of matters delegated to it by the Board and to finalise matters already approved in principle, including the approval of documentation for shareholders, the declaration of interim and the recommendation of final dividend payments and the allotment of shares.

The table below gives details of attendance of Board and Committee meetings during 2019. On those few occasions when Directors were unable to attend meetings due to conflicting appointments, their views are sought by the Chair of the Board or the relevant Committee in advance of the meeting to ensure they are taken into account at the meeting,

	Board	Audit	Corporate Responsibility	Group Risk	Nomination	Remuneration
Sir Roy Gardner	12/12	–	3/3	–	4/4	4/4
Rupert Soames	12/12	–	3/3	–	–	–
Angus Cockburn	12/12	–	–	–	–	–
Kirsty Bashforth	12/12	–	3/3	3/3	–	4/4
Eric Born	12/12	5/5	3/3	–	–	–
Ian El-Mokadem	12/12	–	3/3	4/4	–	–
Rachel Lomax ¹	11/12	5/5	–	4/4	3/3	–
Lynne Peacock ²	11/12	5/5	–	–	4/4	4/4
John Rishton ³	12/12	5/5	–	3/4	4/4	4/4

Notes:

1. Rachel Lomax was unable to attend the board meeting on 25 September 2019, a date on which she had another commitment.
2. Lynne Peacock was unable to attend the board meeting convened at short notice for 3 December 2019, a date on which she already had a prior commitment.
3. John Rishton was unable to attend the Group Risk Committee meeting on 1 May 2019, a date on which he had another commitment.

Corporate Governance Report continued

Board and Governance continued

Board evaluation

During 2019, in response to recommendations arising from the external Board evaluation undertaken in 2018 by ICSA Board Evaluation Limited (with which the Company has no other connection), a number of changes of a procedural nature were made to improve Board effectiveness. This included the more detailed feedback to the Board of the appraisals of Non-Executive Directors and the Chief Executive, a review of those processes, procedures and policies requiring Board review and the scheduling of their regular review and a review of the matters discussed by the Nomination Committee which led to its role being broadened.

An internal evaluation was undertaken in 2019 using a questionnaire based on the UK Corporate Governance Code. This evaluation, acknowledging progress on areas identified in previous external and internal evaluations, concluded that the Board and its Committees continued to operate effectively. It was, however, agreed that further formalisation of some of the activities of the Nomination Committee would be beneficial. It was also agreed that there is a need to ensure that the revised Corporate Responsibility Framework continues to address the promotion of the Company's contribution to wider society, ensure that workforce policies continue to support long-term sustainable success, and that they evolve as necessary and enable greater assessment and monitoring of culture, and a check that policy, practices and behaviour remain aligned with the Company's purpose, values and strategy.

Appointment, induction and training

The Chairman is responsible for ensuring that an appropriate induction is provided to new Board members. The induction programme is specifically tailored to the needs of the incoming Director and includes circulation of the Board's policies and procedures, meetings with senior management and contract site visits.

Training is made available to and provided to the Board on a range of governance and other issues.

Individual training needs are identified as part of the annual appraisal process and Directors are encouraged to take advantage of externally provided training opportunities.

In addition, several Non-Executive Directors attended parts of the Oxford Management Programme for senior management and Divisional management meetings, on an observational basis, and met with members of the senior management team.

External directorships

The Company has a policy which allows the Executive Directors to accept directorships of other quoted companies and to retain the fees paid, provided that they have obtained the prior permission of the Chairman. In accordance with the Code, no Executive Director would be permitted to take on more than one Non-Executive Directorship in a FTSE 100 company or the Chairmanship of such a company.

Angus Cockburn was a Senior Independent Director, Chair of the Audit Committee and a member of the Nomination and Remuneration Committee of Ashted Group plc throughout the year.

Rupert Soames was appointed as a Non-Executive Director and a member of the Audit, Nomination and Remuneration Committees of DS Smith Plc on 1 March 2019 and became Senior Independent Director on 3 September 2019.

Conflicts of interest

Every Director has a duty to avoid a conflict between their personal interests and those of the Company. The provisions of Section 175 of the Companies Act 2006 and the Company's Articles of Association permit the Board to authorise situations identified by a Director in which he or she has, or may have, a direct or indirect interest that conflicts, or may conflict, with the interests of the Company. The Board undertakes regular reviews of the external positions and interests held in and arrangements with third parties made by each Director and, where appropriate, to authorise such conflicts. Notwithstanding the above, each Director is aware of their duty to notify the Board should there be any material change to their positions or interests during the year. Directors do not participate in Board discussions or decisions which relate to any matter in which they have, or may have, a conflict of interest.

Group Risk Committee Report

Group Risk Committee members

Rachel Lomax (Chair)
Kirsty Bashforth
Ian El-Mokadem
John Rishton

Dear Shareholders

The Committee has continued to oversee the Group's efforts to enhance its risk management capability and the way that the Risk Management Framework has been embedded at Divisional level. We have continued to review the risk profile on a quarterly basis and during these sessions have focused on having action orientated discussions around our principal risks and their mitigations.

Throughout 2019 the Committee has continued to concentrate on:

- conducting "deep dives" with each Division, considering and challenging their approach to their material risks, and gaining a deeper understanding of the management approach to risk management generally;
- hearing from each principal risk subject matter expert to gain deeper understanding of risk status;
- challenging divisional risk registers to ensure they are aligned to the Group's principal risks; and
- satisfying itself that Divisions have adequate capability to implement the Group's Risk Management Framework.

During the year we have challenged the Group risk function to drive process improvements and endorse the developments towards more integrated Enterprise Risk Management methodology. The Group Enterprise Risk Management function underwent structural transformation in 2019 and a review of divisional enterprise risk management capabilities is underway.

Following a review by the Executive Committee, including a review of external and emerging risk trends it was agreed that we would retire the Transformation risk from the principal risks reported in 2018 and that a new People risk would be included that recognises the need for succession plans for our senior management team and other business critical roles.

Our governance of principal risks has remained unchanged since 2018, and we have agreed to extend our oversight over Compliance Assurance in 2020.

The Committee recognises the commitments made under the DPA and notes that elements of the planned improvements associated with the DPA are included in a number of the mitigations captured against our principal risks. We will continue to oversee execution of these mitigations via our risk management process outlined on pages 60 to 61 and through regular review of the DPA plan.



Rachel Lomax
Chair of the Group Risk Committee
25 February 2020

Corporate Governance Report continued

Group Risk Committee Report continued

Committee's responsibilities

The Committee advises the Board on the Group's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environments. The key responsibilities of the Committee are:

- overseeing the effectiveness of the Group's risk management framework, including the assessment of all the principal risks facing the Group, and the action being taken by management to mitigate risks that are outside of the Group's risk appetite;
- challenging and advising the Board on the current risk exposures facing the Group, future risk strategy and reviewing regular risk management reports which enable the Committee to consider the process for risk identification and management;
- assessing how key Group risks are controlled and monitored by management;
- in conjunction with the Audit Committee, reviewing the Group's risk assessment processes, and ensuring both qualitative and quantitative metrics are used to inform the Board's decision-making; and
- reviewing the Group's capability to identify and manage emerging risks, in conjunction with the other Board Committees as appropriate.

The Committee's Terms of Reference are available on the Company's website.

Membership and attendees

The Committee is comprised solely of independent Non-Executive Directors. The Board considers that each member of the Committee is independent within the definition set out in the UK Corporate Governance Code. Biographical details for each member of the Committee are provided on pages 102 and 103. The Committee met four times during the year and details of Committee membership and attendance at meetings are set out on page 107 and Committee meetings are held in advance of Board meetings, with the Committee Chair updating the Board directly on the outcomes of each meeting. Meetings of the Committee are attended by the Chief Executive, the Group General Counsel and Company Secretary and the Group Director Enterprise Risk.

Activities of the Committee during 2019

During the year the Committee's key activities included:

- receiving updates regarding the Group's principal risks, detailing key changes and trends, and emerging risks;
- undertaking, as planned, an in-depth review ("deep dives") of the following risks: Failure to manage our reputation, Failure to deliver expected benefits from Transformation, Contract non-compliance, non-performance or misreporting, Catastrophic incident, Material legal and regulatory compliance failure, Failure of business critical partner, supplier, sub-contractor and Major information security breach. Failure to act with integrity was reviewed by our Corporate Responsibility Committee; Financial Control Failure by our Audit Committee; and Failure to Grow profitably by the Board;
- receiving presentations, as planned, from all four Divisional CEOs covering their Divisional Risk Management process, alignment of their risks to the Group Risk Register and a selected "deep dive" on one of their principal risks;
- ongoing challenge and support of the Group Director Enterprise Risk to improve, enhance and embed the risk management framework.

2020 priorities and focus

During 2020, the Committee will continue its focus on undertaking detailed "deep dive" reviews into Group principal risks, which may not be classified as such but nonetheless warrant review and discussion at Committee level. Meetings with the Divisional teams will also continue. Focus will remain on the progression of mitigation actions and their effectiveness, to develop our Enterprise Risk Management approach and refresh the supporting policies, standards and reporting. We will also extend our oversight to include governance of our Group-wide compliance assurance activity including greater oversight of the three lines of defence and how they interrelate and work effectively. The Committee will retain time at the end of each meeting to meet separately without management present and invite one of the Divisional Heads of Compliance Assurance to attend for part of this session. The Committee will also meet privately with the Group Director Enterprise Risk.

Serco's approach to managing business risks and internal control

Serco's internal control framework includes financial, operational, compliance and risk management controls. These are designed to manage and minimise risks that would adversely affect services to our customers and to safeguard shareholders' investments, our assets, our people and our reputation (collectively "business risks").

Internal controls and key processes are defined within the Serco Management System ("SMS"). To provide management assurance that these controls are effective, we use a "three lines of defence" compliance assurance model to test business compliance.

The Executive Committee is responsible for providing oversight, challenge and direction across the first and second lines of defence, including the review of the Group Risk Register and individual risks as required.

The Board has overall responsibility for risk management and internal control and formally reviews the findings of the overall Internal Audit programme. It is supported in these duties by the Group Risk and Audit Committees.

The Board confirms that there has been a focus on the three lines of defence for the year under review and up to the date of approval of the 2019 Annual Report and Accounts.

First line of defence – Contract Managers, Business and Function leaders within the Group are responsible for identifying and managing risks and for implementing associated processes and controls.

We endeavour to ensure that appropriate processes and controls are in place through the implementation of our SMS and that suitably trained staff seek to ensure that customer, legal and regulatory requirements are adhered to. We conduct an annual SMS self-assessment which is

completed by our Contract Managers and other Leaders across the Group. This process enables a deeper understanding of SMS compliance levels and helps drive improvements. Progress against actions identified through this self-assessment is monitored by senior management. We recognise that whilst the SMS controls can provide reasonable assurance against misstatement or loss, this cannot be absolute.

Second line of defence – The Group Enterprise Risk Function is responsible for the development and implementation of policies and standards associated with Risk Management and Compliance Assurance. It is the custodian of the Group Compliance Assurance Programme ("CAP") and the Principal Risk Register, providing management oversight, assurance and challenge.

The CAP aims to ensure we have a consistent approach to compliance assurance across all Divisions, with direction provided by Group around minimum requirements based upon our principal risks.

Third line of defence – The Group Head of Internal Audit reports functionally to the Audit Committee Chair and is responsible for the delivery of the Internal Audit programme.

Together with external audits undertaken across the Group, Internal Audit provides an independent assessment of the design and operating effectiveness of the Group's governance, risk management and control frameworks in place to manage risk.

The Internal Audit team carries out an annual programme of risk-based audits reporting findings to the Audit Committee. The audit programme is approved by the Audit Committee. The in-house Internal Audit team uses PwC as a co-sourced resource, where appropriate.

Corporate Governance Report continued

Audit Committee Report

Audit Committee members


John Rishton (Chair)
Eric Born
Rachel Lomax
Lynne Peacock

Dear Shareholders

I am pleased to present the Committee's report for the year ended 31 December 2019. An insight into how the Committee addressed significant issues during 2019, which were reported to the Board as a matter of course, and how other responsibilities of the Committee were discharged, are described in this report. The Audit Committee has a fundamental role to play in reviewing, monitoring and challenging the effectiveness of the Group's financial reporting and internal control processes. During the year the Committee also undertook a broad range of finance, accounting and control related reviews including post investment reviews of the Group's 2018 acquisitions of certain Carillion healthcare contracts and BTP Systems LLC.

Throughout 2020, the Committee will continue to focus on the critical accounting judgements made, the effectiveness of the Group's financial controls and assurance programme, the operating performance of the finance operating structure, specifically the outsourced operating model and any emerging risks arising from it, compliance with the Deferred Prosecution Agreement for items under its terms of reference, and the delivery and effectiveness of the Group's Internal Audit function.

Also during 2020, the Committee will monitor developments from independent reviews such as the review led by Sir Donald Brydon, and the impact the recommendations have on the Group's current internal control framework and the audit profession. The Committee will challenge and review how the Group adapts to address any legislative changes which arise from these recommendations.



John Rishton
Chair of the Audit Committee
25 February 2020

Committee's responsibilities

The Committee supports the Board in fulfilling its responsibilities in respect of: overseeing the Group's financial reporting processes; reviewing, challenging and approving significant accounting judgements proposed by management; the way in which management ensures and monitors the adequacy of financial and compliance controls; the appointment, remuneration, independence and performance of the Group's External Auditor; and the independence and performance of the Group's Internal Audit function.

The Terms of Reference for the Committee are available on the Group's website.

Membership and attendees

The Committee is comprised solely of Independent Non-Executive Directors. The Board considers that each member of the Committee is independent within the definition set out in the UK Corporate Governance Code ("the Code") and that, between them, the members of the Committee bring strong international, service and public sector expertise and experience which is highly relevant to the Company. John Rishton is a Fellow of the Chartered Institute of Management Accountants and has served as Chief Executive and Chief Financial Officer of large businesses, providing assurance to the Board that at least one member of the Committee has recent and relevant financial experience, as required by the Code. Biographical details for each member of the Committee are provided on pages 102 and 103.

The Committee met five times during the year and details of Committee membership and attendance at meetings are set out on page 107. In addition to the members of the Committee, the Chief Financial Officer, the Director of Finance, the Group Head of Reporting and Financial Assurance, the Head of Internal Audit, the Group General Counsel and Company Secretary and representatives of the Company's External Auditor, KPMG LLP, attended and received papers for each meeting. The Committee retains time at the end of meetings to meet without management present for discussion with either the Head of Internal Audit or KPMG LLP. The Committee also meets privately with the Chief Financial Officer.

Performance review

The Audit Committee's performance was assessed as part of the Board's annual effectiveness review. The findings from the review were largely positive with it being noted that the Audit Committee is effective in its role and that improvements have been made during the year in terms of the Committee's understanding and oversight of internal controls including the delivery of finance and accounting services from the Group's outsourced service provider, Accenture. Also seen as a positive for the Committee was the continued inclusion of specific agenda items focused on significant internal audit findings which enabled the Committee to challenge management on the resolution of specific issues identified, and improved the Committee's understanding of the underlying culture of the organisation through management's commitment to address the issues identified. Improvements suggested in relation to the Audit Committee's performance, which the Committee will seek to implement throughout 2020, included expanding the nature of 'deep-dives' undertaken for the benefit of the Committee's understanding of key issues, the use of data analytics across the Group and the ongoing requirement for post investment reviews.

Activities of the Committee during the year

During the year, the Audit Committee carried out core duties alongside the work required on significant judgements and issues. The core activities undertaken during the year included:

- reviewing the integrity of the half-year and annual financial statements and the associated significant financial reporting judgements and disclosures including;
 - that the information presented in the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and contains the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
 - the effectiveness of the disclosure controls and procedures designed to ensure that the Annual Report and Accounts complies with all relevant legal and regulatory requirements;
 - the process designed to ensure the External Auditor is aware of all 'relevant audit information', as required by Sections 418 and 419 of the Companies Act 2006;
 - the management representation letter to the External Auditor; and
 - the findings and opinions of the External Auditor.
- considering the liquidity risk and the basis for preparing the half-year and annual financial statements on a going concern basis, and reviewing the related disclosures in the Annual Report and Accounts;
- reviewing the Viability Statement to ensure that it is appropriate and balanced in respect of highlighting the risks the Group is exposed to and the assumptions being made in assessing its viability;
- considering the provisions of the Code regarding going concern and viability statements and reviewing emerging practice and investor comment;
- reviewing updates on accounting matters and new accounting standards, including the acquisition accounting of the Group's acquisition of NSBU and the new accounting standard on leases (IFRS16);
- reviewing the effectiveness of the Group's financial controls and financial assurance programme, including a deep-dive into the management of the Financial Control Failure principal risk and performance of the Group's provider of outsourced finance activities following the finance transformation programme;
- overview of the Group's Tax strategy, including how provisions for uncertain tax positions are derived, the status of tax audits being undertaken and the Group's position in relation to historic tax losses;
- reviewing the effectiveness and independence of the Group's Internal Audit function including obtaining functional or contract level feedback for Internal Audit reviews receiving a 'red' rating outlining the actions and responses subsequent to the audit; and
- maintaining the Group's relationship with the external auditor, including assessing the audit plan and monitoring both independence and effectiveness.

As well as carrying out the core duties above, the Audit Committee received the following key business updates which assisted the Committee in understanding the framework in place to mitigate the specific risks associated with these aspects of the business:

- An update on the Group's insurance strategy following a restructuring of the internal team and change in the principal insurance broker;
- A review of the Group's bid and performance related bonds and bank guarantees; and
- Post investment reviews of the Group's acquisitions of certain Carillion healthcare contracts and BTP Systems LLC in 2018 including a review of the key learnings.

Internal control environment

The Committee is responsible for monitoring the Group's internal control environment and assessing its effectiveness. As part of this assessment the Committee receives regular updates on internal controls and in forming an opinion on effectiveness it also considers the requirement to make relevant recommendations to the Board.

The Group has both a financial assurance function and an Internal Audit function, with both making regular contributions to meetings of the Audit Committee. The findings of financial assurance are assessed, and guidance is given to direct their work. Similarly, Internal Audit reports are received by the Committee on a regular basis and if it is deemed relevant, the management teams from central functions, divisions or individual business units are invited to the meeting to discuss the findings arising from Internal Audit reviews. The Audit Committee also has responsibility for reviewing the annual Internal Audit plan and assessing both the adequacy of resources of the Internal Audit plan and the scope of the Internal Audit programme.

Internal Audit

Internal Audit acts as a 'third line of defence' providing independent assurance to the Board, Audit Committee and management, and in particular:

- provides objective, independent assurance and advice to management and the Audit Committee on the design and operating effectiveness of the governance and internal control processes in place to identify and manage business risks;
- delivers an annual programme of risk-based Internal Audits, reporting findings and recommendations for management actions to improve governance, risk management and controls to each Audit Committee meeting; and
- reviews the annual Internal Audit programme regularly throughout the year to ensure it remains focused on key risks, recommending changes to the Audit Committee for their approval.

Internal Audit gives particular regard to the ongoing evaluation of the efficacy of the Group's financial controls and reporting processes. Internal Audit is headed by the Group Head of Internal Audit who reports functionally to the Chair of the Audit Committee ensuring independence is maintained. Internal Audit work with a co-sourced partner, PwC, to supplement and enhance in-house skills and resources where required.

Corporate Governance Report continued

Audit Committee Report continued

During 2019, Internal Audit has delivered a full programme of audits making recommendations to management for improvements to risk, governance and controls. Reports are discussed with the parts of business they relate to and management actions agreed are then tracked for progress. Key themes and management action progress have been included in regular written updates to the Audit Committee. Internal Audits may focus on individual contracts, processes, functions or risk themes.

Also, in conjunction with the Group Risk Committee, the Audit Committee considers whether the Internal Audit programme is aligned to the Group's key risks.

A review of the effectiveness of Internal Audit was undertaken during the year with the function scoring well in most of the areas considered. Amongst the areas identified for potential improvement were the ability of junior team members to grasp complex issues within some of the Group's more challenging contracts and an appreciation by Internal Audit of the operational impact of implementing certain recommendations which may be challenging from a practical perspective. The Committee has acknowledged the results of the review and will take action to address concerns through its oversight of the Internal Audit function.

The 2020 Internal Audit programme will continue to focus on the key risks across the business.

Financial controls

The Group aims to have a strong and well-monitored control environment that minimises financial risk and, as part of the Committee's responsibilities, it reviews the effectiveness of systems for internal financial control and financial reporting. Where relevant, the Committee also works with the Group Risk Committee to consider financial risk management.

Financial control risk is monitored through one of the Group's Principal Risks, 'financial control failure'. The Committee has reviewed this risk during 2019 and has focused in particular on:

- the impact of the Group's Finance Transformation programme and risks associated with the delivery of financial information under the new operating model, with briefings received from management; and
- management's review of the output and adequacy of the Group's financial assurance programme, with a focus to deliver better assurance through system controls and data analytics, with key improvements made in this area during 2019.

Following review and challenge, the Committee believes that, to the best of its knowledge and belief, the financial control framework and the monitoring of this framework has worked effectively during the year, and that in cases of non-compliance, the Group has not been exposed to critical, severe or significant risk. The Committee was also encouraged to note that where weaknesses in the financial control framework were identified, they were being addressed.

Finance transformation

Management has completed the transition to a new finance operating model following the Group's Finance Transformation programme. The new operating model, which is now in place across the UK and AsPac has transitioned to the Group's outsourced finance service provider the responsibility for preparing financial and management accounting reports and profit and cash forecasts via its Centre of Excellence as well as the Group's transaction processing. The objective is that processes, once centralised, can be both standardized and improved in their effectiveness and efficiency.

Due to the nature of the Finance Transformation programme, the Audit Committee has been kept informed of progress and receives regular briefings on risks and issues arising while the model continues to be embedded. In considering the potential risks and issues, the Committee has provided challenge to management on the processes and controls put in place to mitigate them. The Committee has received updates on the ongoing implementation of third-party services and the effectiveness of those services. Presentations during the year have highlighted operational issues that the Group is working through with its service provider. These operational issues include higher than anticipated staff turnover within the centre of excellence, slower than anticipated benefits of standardisation arising from centralisation and a delay in the implementation of certain Service Level Agreements. The Committee continues to remain abreast of the issues identified within the programme and receive regular updates on the implementation from members of the senior management team.

The Committee, through its review and challenge, has concluded that the new finance operating model is appropriate and despite certain delays and operational inefficiencies is progressing at an acceptable level. The Committee is also satisfied that sufficient steps have been taken by management to mitigate identified risks and issues.

Significant financial judgements

Contract performance, including Onerous Contract Provisions (OCPs)

During 2014, as part of the Group's Strategy Review, the Contract & Balance Sheet Review saw the creation of a material level of OCPs. The measurement of those OCPs required significant judgement that the Audit Committee has kept under review, providing challenge to the assumptions used by management and key judgements used in assessing the performance of the Group's contracts.

The Audit Committee gives particular focus to material OCP positions, as well as the portfolio of OCPs across the Group. The Committee agreed, with the support of the External Auditor, that the view formed by management regarding each individual material OCP, as well as the aggregate view, was reasonable. The Committee was satisfied that the work undertaken by management to monitor existing contracts and identify contracts where a new OCP may be required and associated allocation of central costs was sufficiently robust.

Viability and going concern

The Group has assessed its ongoing viability and the applicability of the use of the going concern assumption in preparing its financial results. In assessing viability, management use the Group's anticipated future cash flows and undertake a range of sensitivities to identify any plausible situations which could cause the viability of the Group to be of concern. Additionally, management perform a going concern assessment twice annually to ensure the assumption that the Group will continue in operational existence for the foreseeable future is appropriate.

In challenging management's assessment, the Committee focused on the Group's headroom within its financial covenants, particularly in relation to the likely severity of risk crystallization. The Committee concurred that whilst in severe scenarios the ability of the Group to stay within its agreed headroom may be put under pressure, the Group remains viable and key assumptions supporting this assessment be disclosed within the viability statement on pages 74 and 75.

The Committee also reviewed management's assessment of going concern and found that sufficient evidence existed to support the Going Concern basis of preparation. This was based on anticipated future cash flows agreed by the Board as part of the Group's budgeting process. The Committee has also considered the commitments made under the Deferred Prosecution Agreement (DPA) entered into with the Serious Fraud Office (SFO), and assessed the impact this has on the Group's disclosures in relation to these statements.

The Committee further considered management's assessment of the claim seeking damages for alleged losses following the reduction of Serco's share price in 2013. The Committee concurred with management's assessment that due to the stage of the matter and the uncertainties regarding the outcomes, no provision was required, and disclosure as a contingent liability at the year end was appropriate. See note 29 to the financial statements.

Both the proposed Viability Statement, and results prepared using the going concern assumption, were approved by the Committee for recommendation to the Board.

Use of alternative profit measures (APMs) and exceptional items

The Group's performance measures continue to include some metrics which are not defined or specified under IFRS. In particular, following its introduction in 2015, management continued to use Underlying Trading Profit, as a key measure to review current performance against the prior year by removing the impact of adjustments to OCPs, material charges and releases of other items identified during the 2014 Contract & Balance Sheet Review, together with other significant non-trading items. The Group also uses the term Exceptional Items to meet the requirements of IAS1 para 97 which requires the nature and amount of material items of income and expense to be disclosed separately, and includes costs arising from the restructuring programme initiated after the 2014 Strategy Review.

The Audit Committee continues to consider the disclosure of performance measures used by management and whether they continue to provide meaningful insights into the results of the Group. The Committee also considers the treatment of Exceptional Items and whether they are appropriate to be classified as such.

The Committee has agreed with management that Underlying Trading Profit continues to be a reasonable basis on which to compare the relative performance of the business year on year. The Committee also, following challenge of each individual item, agrees with management's classification of items as exceptional and requiring separate disclosure. After review of the disclosure of APMs in the Half and Full Year 2019 results and the 2019 Annual Report, the Committee concluded that the descriptions for each individual APM used were clear and meaningful, and that the relationship between them and the nearest relevant statutory IFRS measure was clearly explained and supported. The Committee was also satisfied with the controls management has put in place to identify Exceptional Items and to ensure that costs which should be recorded within Underlying Trading Profit are not inappropriately classified as Exceptional Items. As a result, the use of APMs and Exceptional Items in the Half and Full Year 2019 results and the 2019 Annual Report was recommended to the Board for approval.

The Committee also supported the changes to measurement of APMs following the adoption of IFRS16, as disclosed on page 43.

The adoption of new accounting standards in 2019

The Annual Report and Accounts for the year ended 31 December 2019 is the first prepared by the Group in accordance with IFRS16 'Leases'. In applying IFRS16 for the first time management has been required to make decisions related to the method of adoption and the application of judgement relating to exemptions and other options contained in the new accounting standard. Management have opted to apply the modified retrospective approach to transition and following the change in requirements relating to the measurement and disclosure of leases, have also implemented a new piece of software and associated processes to identify, track and account for all leases.

During 2018 the Audit Committee took part in an IFRS16 education session held with senior members of the Group Finance team and the External Auditors. The Committee then challenged management on the manner of the transition approach adopted, the application of elements of the standard as they relate to leases exempt from application of the standard and the ongoing implementation of the new software required to assist management in tracking and accounting for leases.

The Committee is satisfied with the policy choices made by management and the associated changes made to the Group's accounting policies for leases as a result. The Committee is also in agreement with management over the disclosures made in relation to the adoption of IFRS16 for the first time and the changes to disclosures required as a result of the new accounting standard.

The impact of IFRS16 is disclosed within note 2 of the Financial Statements.

Corporate Governance Report continued

Audit Committee Report continued

Goodwill impairment

During 2014, 2015 and 2016, following the annual goodwill impairment review, management proposed impairment charges to certain of the Group's goodwill balances. In performing the impairment reviews, management uses information on anticipated future cash flows and discount rates to assess whether the carrying value of goodwill is appropriately measured.

The valuation formed using the anticipated future cash flows, discount rates and terminal values has a number of key judgements associated with it, and the Audit Committee has received key information associated with these. The Committee challenged management on the discount rates and terminal values used in the review noting that they had been sourced by a third party expert, and ensured that the underlying cash flows were consistent with those included in Board approved forecasts.

The Committee reviewed the resulting disclosures proposed by management and found them to be transparent, appropriate and in compliance with applicable financial reporting requirements.

Defined benefit pension schemes

The Group's defined benefit pensions schemes include a number of significant judgements and areas of management focus, principal amongst which are the identification of obligations arising from contracts with customers and calculation of the financial impact of defined benefit obligations.

The Committee has considered both the process undertaken by management to finalise key assumptions underlying the valuation of defined benefit obligations, and those processes associated with identifying obligations arising, and is satisfied that they remain appropriate. In forming their opinion on the judgements applied to valuing liabilities, the Committee considered how those judgements compared to observable benchmarks in the market, and advice has been taken from independent actuaries on the ongoing appropriateness of assumptions used. The Committee is satisfied that the processes followed are appropriate and that the conclusions reached, and calculations performed are appropriately balanced.

Financial Reporting Council

During the year, the Financial Reporting Council ('FRC') wrote to the Company in relation to the thematic review of IFRS15 disclosures in the Company's annual report for the year ended 31 December 2018. No questions or queries were raised as part of the review, however some other matters were raised in relation to the annual report which management have considered and, where material and of relevance, enhanced disclosures within the 2019 Annual Report and Accounts. The FRC's review only covered the specific disclosures relating to this thematic review and provides no assurance that the report and accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

External auditor

The Audit Committee manages the relationship with the Company's External Auditor on behalf of the Board. In 2017, KPMG LLP were appointed by the Board as the Company's external auditor for the 2016/17 audit and have served as the Company's auditor for three years. John Luke was appointed as audit partner in 2018. In accordance with the Revised Ethical Standard 2016, the Company will continue the practice of the rotation of the audit engagement partner at least every five years.

The Committee evaluates the effectiveness of the external audit annually, using feedback obtained from management associated with audits undertaken in Group Finance and in the Divisions and by assessing the performance of the External Auditor against a range of criteria including calibre of the audit team, knowledge of the Group, and the quality of planning, review, testing, feedback and reporting. The feedback received was reviewed by management and reported to the Committee. After taking these reports into consideration, the Committee concluded that the auditor demonstrated appropriate qualifications and expertise and remained independent of the Company, and that the audit process was effective. Foremost amongst the areas which could be enhanced within the External Audit process was the visibility of the External Auditor's technological and data analytic driven procedures

In addition to the evaluation of the effectiveness of the external audit, the Audit Committee has responsibility for certain core decisions relating to the external audit process that include:

- considering and approving the audit approach and scope of the audit undertaken by KPMG LLP as External Auditor and their fees;
- agreeing reporting materiality thresholds;
- reviewing reports on audit findings and assessing their impact on the Group's internal control environment;
- considering and approving letters of representation issued to KPMG LLP;
- considering the independence of KPMG LLP and their effectiveness, considering:
 - non-audit work undertaken by the External Auditor;
 - feedback from a survey targeted at various stakeholders; and
 - the Committee's own assessment.
- making a recommendation to the Board on the appointment of the External Auditor.

The Committee reviewed the External Auditor's engagement letter and determined the remuneration of the External Auditor in accordance with the authority given to it by shareholders. The Committee considered the External Auditor's remuneration to be appropriate.

It is proposed that KPMG LLP be re-appointed as External Auditor of the Company at the next AGM in May 2020 and, if so appointed, that they will hold office until the conclusion of the next general meeting of the Company at which accounts are laid. Further details are set out in the Notice of Annual General Meeting which is available on the Company's website.

The Independent Auditor's Report to shareholders is set out on pages 156 to 166.

Non-audit fees

The Committee limits the non-audit work undertaken by the External Auditor and monitors the non-audit fees paid during the year. For the financial year ended 31 December 2019, the non-audit fees paid to KPMG LLP were £26.5k (2018: £0.1m). The majority of the fees relate to the SFO investigation where KPMG LLP is being used for continuity given the complex nature of the work performed, with their services in respect of the review commencing prior to KPMG LLP's appointment as External Auditor. These services predominantly relate to data extraction under instruction from the Group's external lawyers prior to the DPA being agreed.

An analysis of fees paid in respect of audit and non-audit services provided by the External Auditor for the past two years is disclosed on pages 194 to 195. The Committee regularly reviews the nature of non-audit work performed by the External Auditor and the volume of that work. Focus is given to ensuring that engagement for non-audit services does not: (i) create a conflict of interest; (ii) place the auditor in a position to audit their own work; (iii) result in the auditor acting as a manager or employee; or (iv) put the auditor in the role of advocate for the Company.

Having undertaken a review of the non-audit services provided during the year, the Committee is satisfied that these services were provided efficiently by the External Auditor as a result of their existing knowledge of the business and did not prejudice their independence or objectivity.

Corporate Governance Report continued

Nomination Committee Report

Nomination Committee members

Sir Roy Gardner (Chair)
Rachel Lomax
Lynne Peacock
John Rishton

Dear Shareholders

During the year, the Committee regularly reviewed the balance of skills on the Board to identify where additional skills would be beneficial, reviewed the annual plan of agenda items to ensure all those matters required to be addressed by the Committee were fully discussed and confirmed the renewal of appointments for further terms of three years for those Non-Executive Directors whose three-year terms of appointment were due for renewal.

Following review of Board composition, it was concluded that, following changes made during the two previous years, the Board currently has the appropriate breadth of experience.

As part of the Committee's objectives to ensure the Board and its Committees are continually refreshed, the Committee recommended that Rachel Lomax should be appointed as a member of the Nomination Committee and that Kirsty Bashforth should be appointed as a member of the Group Risk Committee during the year.



Sir Roy Gardner
Chair of the Nomination Committee
25 February 2020

Committee's responsibilities

The Board values diversity and, when recruiting new Board members, the issue of diversity is addressed by the Committee, with particular regard to the percentage of women on the Board (which currently stands at 33% (2018: 33%).

The key responsibilities of the Committee are:

- reviewing the size, structure and composition of the Board and identifying candidates for appointment to the Board;
- recommending membership of Board Committees;
- undertaking succession planning for Directors and other senior executives and ensuring that the leadership needs of the organisation continue to be met; and
- reviewing induction and training needs of Directors.

The Committee's Terms of Reference are available on the Company's website.

Membership and attendees

The Committee is chaired by the Company's Chairman and is comprised solely of independent Non-Executive Directors. The Board considers that each member of the Committee is independent within the definition set out in the UK Corporate Governance Code. The Committee met four times during the year and details of Committee membership and attendance at meetings is set out on page 107. Meetings of the Committee are normally attended by the Group Chief Executive, the Group HR Director and the Group General Counsel and Company Secretary. Biographical details for each member of the Committee are provided on pages 102 and 103.

Performance review

The Committee's performance was assessed as part of the Board's annual effectiveness review. Although it was felt that the Committee worked effectively, it was agreed that further formalisation of some of the activities of the Committee would be beneficial.

Activities of the Committee during 2019

During the year the Committee's key activities included:

- **Changes to the Committee's membership**
As part of the ongoing process of ensuring the continuing refreshment of the Board and its Committees, the Committee recommended that its composition should be further strengthened by the appointment of Rachel Lomax, particularly given her experience in senior government roles. Accordingly, she was appointed a member of the Committee on 1 March 2019.
The Committee also recommended the appointment of Kirsty Bashforth to the Group Risk Committee, particularly given her role as Chair of the Corporate Responsibility Committee. Accordingly, she was appointed a member of the Group Risk Committee on 1 May 2019.
- **Executive Succession Planning**
The Committee reviews succession for key executive roles annually to ensure plans are in place for both planned and unintended vacancies, including the identification of suitable internal candidates and their development requirements, including their exposure to the Board at Board meetings.
- **Review of external commitments**
A review of the Non-Executive Directors' external commitments, taking account of the views of institutional investor bodies, was undertaken from which it was concluded that each of the Company's Non-Executive Directors was able to dedicate sufficient time to undertake their duties on behalf of the Company.
- **Non-Executive Director training**
During the review of training requirements, although no particular needs had been identified, it was agreed that a more coordinated approach would be taken to visits by Non-Executive Directors to the Company's contracts, leadership conferences and management meetings to increase Non-Executive Directors' awareness of the Company's operations and to increase their accessibility to the Group's employees. This has resulted in an increased number of such contract visits, as detailed in the Governance overview. Training is made available to and undertaken by Directors throughout the year and there will be an increased focus on training in 2020.

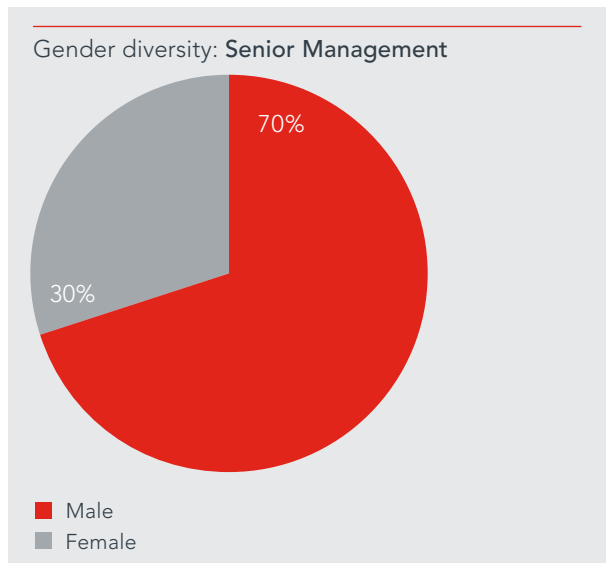
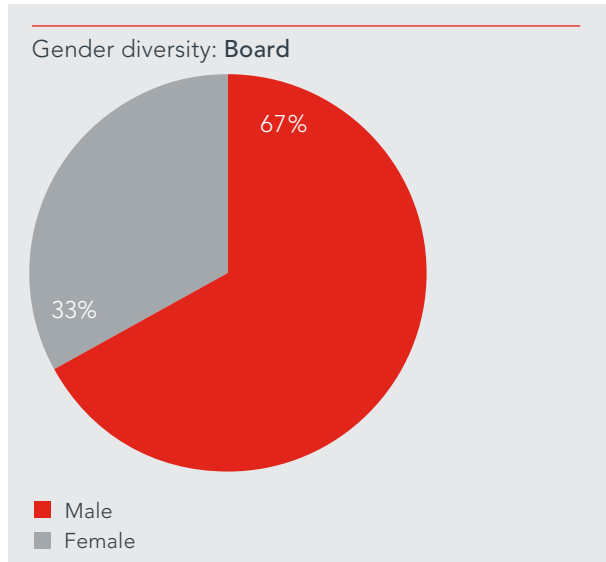
- **Developing the Board Diversity Policy**

Serco strongly supports the principle of boardroom diversity and values the benefits that diversity of thought can bring to its Board and throughout Serco. We believe that a mix of expertise, experience, skills and backgrounds (including age, ethnicity, disability, gender, sexual orientation, religion, belief, culture, education and professional backgrounds) allows Serco to deliver a great service that is valued by our customers and meets the needs of those who use the services we provide. Serco will always seek to appoint Board members and senior management on merit against objective criteria, including diversity. In developing the Board Diversity Policy, the Committee considered the recommendations in the Hampton-Alexander Review and the Parker Report and recommended that the Board commit to improving gender and ethnic diversity on the Board and in the senior management roles within Serco. The Nomination Committee reviews and assesses the Board Diversity Policy annually and recommends any revisions to the Board for approval. Details of the Group's Gender Diversity Policy and how we support development of female talent within Serco are provided on page 81.

Whilst the Board has become more balanced over recent years, culminating in 33% gender diversity, we recognise we still have more to do, not least with regard to other areas of diversity at Board level. Whilst good progress is being made across the Group in all aspects of diversity and inclusion, sustainable change requires a long-term perspective and this remains a key focus for the Company.

2020 priorities and focus

During 2020, the Committee will continue to focus on developing its approach to succession planning for the Board, its Committees and the wider management team, as well as a greater focus on training and consideration of ESG matters.



Corporate Governance Report continued

Corporate Responsibility Committee Report

Corporate Responsibility Committee members

Kirsty Bashforth (Chair)
Eric Born
Ian El-Mokadem
Sir Roy Gardner
Rupert Soames

Dear Shareholders

Serco operates public services on behalf of governments around the world and therefore its most precious asset is the behaviour of its people, both as individuals and collectively. We have developed a stable foundation of mature Values, clear purpose, diligent governance and robust, responsible relationships.

This year has proved an inflection point for the Corporate Responsibility Committee in its remit, rhythm and maturity. It has overseen the evolution of the Corporate Renewal programme into business as usual, which it has been monitoring and governing since 2014, and the development of Serco's approach to Employee Voice, 'Colleague ConneXions', ensuring employee views and interests are factored into Board-level decision-making.

Now in its sixth year of operation, the Committee has reflected on its role to ensure it continues to support delivery of the Group's strategy and its environmental, social and governance responsibilities in the most relevant and efficient way.

Our conclusion: that our principal focus going forward should be on holding the organisation firmly to its Values and standards of behaviour, with particular emphasis on our principal areas of social responsibility: our people, our world and our commitment to behave with integrity and treat people with respect. This evolution in our purpose is complemented by additional steps by the Committee following the approval of the Deferred Prosecution Agreement (DPA) with the SFO.

Going forward, the Committee will meet four times per year, continue to oversee HSE, culture and engagement, ethics assurance and compliance across the Company, as it has done since its inception, but also welcomes responsibility for hosting our new Colleague ConneXions agenda. Input from our people is critical to our success, and I am proud of my fellow Board members and frontline colleagues for how they are working together to forge stronger connections and facilitate valuable dialogue. I am confident that significant value will emerge from our reinvigorated partnership and look forward to reporting our progress.



Kirsty Bashforth
Chair of the Corporate Responsibility Committee
25 February 2020

Committee's responsibilities

The Committee is responsible for assisting the Board in providing independent oversight and guidance as to the impact of the Company's Corporate Responsibility framework and, based on this agreed framework, consider related strategy, policies and practices on how the Company conducts its business, through the lens of how the organisation lives and breathes its Values of Trust, Care, Innovation and Pride.

The Committee's Terms of Reference are available on the Company's website.

Membership and attendees

The Committee is comprised of both Executive and Non-Executive Directors. Biographical details for each member of the Committee are provided on pages 102 and 103.

The Committee met three times during the year and details of Committee membership and attendance at meetings are set out on page 107. Meetings of the Committee are normally attended by the Group General Counsel and Company Secretary, the Group HR Director, the Group Director, Business Compliance and Ethics, and the Managing Director, Group Operations.

Standard annual activities of the Committee

Each year the Committee:

- reviews the Committee Terms of Reference to ensure they remain appropriately aligned to the purpose of the Committee;
- reviews the Committee's position, focus and approach regarding Corporate Responsibility to ensure it remains appropriate, embedded in the business and conducive to the ongoing delivery of the Group strategy;
- supports embedding the Serco Corporate Responsibility Framework whilst ensuring it remains integral to the Group's purpose, strategy and material responsibilities;
- prepares the Group's annual Corporate Responsibility Report and Modern Slavery Statement;
- undertakes deep dives into key areas within its remit to ensure appropriate focus, control and rigour throughout the Group; and
- oversees the effective delivery of the:
 - Group Ethics Compliance strategy and Speak Up process, including: monitoring and reviewing progress and performance across the Group; capability and assurance processes; and in-depth analysis of the Group principal risk, 'Failure to act with integrity';
 - Group HSE strategy, including: monitoring and reviewing progress and performance across the Group; and in-depth analysis of the Group principal risk, 'Catastrophic incident';
 - Group People strategy, including: in-depth analysis of employee engagement survey results, with particular emphasis on Company culture; and
 - Employee Voice approach, which includes the Colleague ConneXions programme, connecting the workforce with the Board to generate value through discussion.

Additional activity undertaken in 2019

- Monitoring and reviewing the progress of the Corporate Renewal Programme (including in-depth analysis of progress in our Middle East Division) and reviewing how core elements of the programme should be reported going forward following their transfer into business as usual;
- review and approval of the Ethics Compliance elements of our ongoing plans to improve the Group compliance and ethics programme, and accepted oversight responsibility for the same;
- ratification of the refreshed Group Ethics Compliance framework and strategy;
- accepted responsibility from the Board for hosting the Company's evolving approach to ensuring that employee views and interests are factored into Board-level decision making;
- reviewed and approved the establishment of three-year safety targets; and
- renewal and update of the remit and Terms of Reference of the Committee to ensure it continues to support delivery of the Group's strategy and its environmental, social and governance responsibilities in the most relevant and efficient way.

Additional activity planned for 2020

- Group Ethics Compliance strategy and Speak Up process: review of Ethics Compliance maturity and ongoing fulfilment of the Company's DPA obligations; and review of the Code of Conduct and associated mandatory training for all employees;
- Group HSE strategy:
 - Safety: review of progress in embedding mature safety culture;
 - Environmental: in-depth review of updated environmental strategy;
- Group People strategy: in-depth review of the wellbeing elements within the Group People strategy; and in-depth analysis of Diversity and Inclusion;
- Employee Voice: directly supporting the ongoing implementation of the Colleague ConneXions programme and working with the Group Colleague Communications Manager to direct its evolution in the longer term;
- expanding the annual schedule of the Committee to a new rhythm of four quarterly meetings;
- creation of a dashboard of CR Key Performance Indicators to track maturity of overall CR across Serco; and
- the Committee will retain time at the end of each meeting to meet separately without management present and invite one of the Divisional Heads of Ethics and Compliance to attend for part of this session. The Committee will also meet privately with the Group Director, Business Compliance and Ethics.

Corporate Governance Report continued

Compliance with the UK Corporate Governance Code

This section of the Corporate Governance Report describes how the Company has complied with the principles and provisions of the UK Corporate Governance Code (“the Code”) published by the Financial Reporting Council in July 2018 and which is available at www.frc.org.uk. It should be read in conjunction with the Corporate Governance Report as a whole, set out on pages 101 to 123.

The Company has complied in full with the Code during 2019.

1. Board leadership and Company purpose

The Board is collectively responsible to the Company’s shareholders for promoting the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society through the fundamental role it plays in the functioning of an orderly society through the services it provides. It oversees and agrees the Group’s purpose, values and strategy at its annual strategy review and at each Board meeting, and ensures that necessary resources are available, and that the appropriate risk management controls and processes are in place by regular review of such matters at Board and Committee meetings.

The Board is mindful of the need to create value whilst taking account of the wider interests of other stakeholders and, when taking decisions, balances the impact on suppliers, communities, the environment, employees, and customers with the objective of securing long-term sustainable growth for shareholders. New business and the renewal of existing contracts above an agreed level is considered at divisional level and then by the Investment Committee, prior to review by the Board which is undertaken having regard to the Company’s four principle values of Trust, Care, Innovation and Pride, and the impact on its workforce. The ways in which the interests of the Company’s stakeholders and the matters set out in section 172 of the Companies Act 2006 have been considered are set out on pages 96 to 100 and the details of the manner in which engagement with the workforce is achieved is set out on page 81. The Board is conscious of the benefits of aligning its culture with its strategy and is further embedding this through its Corporate Responsibility Framework which has recently been revised to reflect the progress made by the Company in recent years through its Corporate Renewal Programme.

Regular engagement is sought with major shareholders, primarily through executive management, following the announcement of the full and half year results, and also through the Chairman, who is available to major shareholders, and the Chair of the Remuneration Committee who consults with shareholders when appropriate to do so regarding remuneration matters. As set out on page 81, the Company has established “Employee Voice” to ensure employee engagement and employees can raise concerns through the Company’s ethics hot line, Speak Up.

Potential and actual conflicts of interest are reviewed at each Board meeting.

2. Division of responsibilities

The roles and responsibilities of the Chairman, Chief Executive, Senior Independent Director, the Board and its Committees are clearly defined, documented, approved by the Board and are available on the Company’s website.

The Chairman leads and is responsible for the operation of the Board. The Chief Executive is responsible for the leadership and management of the business within the authorities delegated by the Board.

The Board regularly reviews the overall balance of skills, experience, diversity, independence and knowledge of Board and Committee members and undertakes an annual review of the independence of its Non-Executive Directors.

As at the date of this report, with six Non-Executive Directors, in addition to the Chairman, and two Executive Directors on the Board, over half of the Board, excluding the Chairman, are independent Non-Executive Directors.

The Non-Executive Directors approve the objectives of the Executive Directors annually and assess their performance against these objectives, and the Non-Executive Directors meet regularly without the Executive Directors present.

The time commitment of Non-Executive Directors is defined on appointment and regularly evaluated.

The Directors have access to independent professional advice at the Company’s expense as well as to the advice and services of the Company Secretary who advises the Board on corporate governance matters.

3. Composition, success and evaluation

The Chairman regularly meets with the Non-Executive Directors without the Executive Directors present. At least annually, the Non-Executive Directors, led by the Senior Independent Director, meet without the Chairman present.

The Nomination Committee is chaired by the Company's Chairman and comprises a majority of Non-Executive Directors. It reviews succession for both Board and senior management positions and, with the assistance of an external search company, leads the process for Board appointments and makes recommendations to the Board. All appointments are made on merit against objective criteria including the promotion of diversity of gender and ethnic and social background.

All Directors submit themselves for re-election at each annual general meeting.

Following the annual evaluation of the Board and its Committees, which is externally facilitated every three years, the recommendations are considered by the Board and addressed by the Chairman with the assistance of the Company Secretary. Annual appraisals of Non-Executive Directors, including the identification of training needs, are undertaken by the Chairman to ensure continued effective contributions.

4. Audit, risk and internal control

The Annual Report and Accounts includes a statement of the Directors' responsibilities regarding the financial statements, including the status of the Company as a going concern, with an explanation of the Group's strategy and business model together with the relevant risks and performance metrics.

A further statement confirms that the Board considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Audit Committee report sets out the details of the Committee's responsibility for ensuring the integrity of the financial reporting process and the key matters considered during the year in respect of its oversight of financial and business reporting.

The Board, through the Group Risk and Audit Committees, has carried out a robust assessment of the emerging and principal risks facing the Company, including those which would threaten its business model, future performance, solvency or liquidity. Further details about these risks and how they are managed and mitigated are included in this Annual Report and Accounts together with the Viability Statement which explains how the Directors have assessed the prospects of the Company and concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

The Board determines the Company's risk appetite and has established risk management and internal control systems. At least annually, the Board undertakes a review of their effectiveness.

The Audit Committee annually reviews the external auditor's independence, the effectiveness of the external audit and the provision of non-audit services. It also reviews and monitors the effectiveness of the Company's internal auditor.

5. Remuneration

The Remuneration Committee has delegated responsibility for determining the policy on Executive Director remuneration, which it does taking account of workforce remuneration and the alignment of incentives and rewards with culture.

The Company's share incentive schemes are designed to promote long term shareholdings for Executive Directors to provide alignment with shareholders' interests.

Full details of how the Company has complied with the principles and provisions of the Code as they relate to remuneration are contained in the Directors' Remuneration Report on pages 124 to 148.

Remuneration Report

Report on Directors' remuneration

Remuneration Committee members

Lynne Peacock (Chair)
Kirsty Bashforth
Sir Roy Gardner
John Rishton

Dear Shareholders

On behalf of the Board, I am pleased to present the Directors' Remuneration Report (the Report) for Serco Group plc for the year ended 31 December 2019. Our 2019 Report sets out how the Directors' Remuneration Policy (the Policy), approved at the 2018 AGM, has been implemented for 2019 and how the Policy will be implemented in 2020.

Our current Remuneration Policy was approved at the AGM in May 2018 with high levels of support. Under this Policy we simplified our long-term incentive arrangements, which also resulted in a significant reduction in the remuneration opportunity for both the CEO and CFO. With these changes the maximum variable pay opportunity for the CEO reduced from 500% of salary to 375%, and from 435% to 330% of salary for the CFO. No changes to the Policy are proposed for the coming year although we are making changes to the implementation of the Policy in connection with the pension for Executive Directors, the details for which we have set out in the Implementation of Policy in 2020 on page 133 of this report. A summary of the approved Policy is reproduced here for reference and the full Policy can be found in our 2017 Directors' Remuneration Report which is available on the Company's website.

Another year of strong business performance

As set out in the Chairman's Statement and Chief Executive's Review, 2019 saw a second successive year of strong growth in revenue and profits, with revenue growth at 15% and a 29% increase in Underlying Trading Profit (UTP) achieved for 2019. As an organisation, we have made significant progress since 2014 when our current Executive Directors were appointed. Our CEO and CFO have successfully led the Company through a major transformation, delivering on the promises made to investors back in 2014, which has resulted in the Company returning to growth. The scale of the transformation achieved should not be underestimated and while there is still further work to do to deliver further savings and cost efficiencies we are pleased to report the growth phase of our corporate strategy continues to build on the green shoots seen in 2018. This is reflected in the resumption of a dividend which, subject to approval by shareholders at the Annual General Meeting, is being recommended in respect of 2019.

Confidence in Serco and our leadership, as demonstrated through the support of our customers, colleagues and shareholders, is reflected in the growth achieved in 2019 across the business. The year saw record order intake of £14.1bn, up from £2.9bn in 2018 (the third year in a row in which order intake has exceeded revenues); with key contract wins including the AASC asylum accommodation and support contract in the UK (the largest in Serco history valued at £1.9bn), and the NGH5 defence garrison healthcare services contract in Australia. A string of successes has also been seen in contract extensions and re-bids, including the Prisoner Escort and Custody Services contract in the UK, and the extension of the Australian immigration services contract. We also added to our business through the significant acquisition and integration of the Naval Systems Business Unit in the US, which complements and significantly expands our capabilities in the defence space.

Summary of key decisions taken in 2019

- Confirmation of 2019 vesting of the 2016 Performance Share Plan (PSP) awards which vested at 79.67% and the 2016 Deferred Bonus Plan (DBP) Matching Share Awards which vested in full.
- Assessment of performance for the 2019 Annual Bonus. It was determined that the CEO should receive a bonus of 94.0% of maximum and the CFO a bonus of 93.3% of maximum.
- Assessment of performance for the 2017 PSP and 2017 DBP Awards for which the performance periods ended in FY19 and are due to vest in 2020.
- Determination of awards granted under the LTIP in June 2019.
- Determination of a nil salary increase for the CEO and a 2.5% increase for the CFO in 2020.
- Adjustment to the performance targets for in-flight long term incentives to maintain the appropriate performance "difficulty" following a significant acquisition within the Group.

Corporate changes

As noted above, the Group completed a significant acquisition of the Naval Systems Business Unit (NSBU) from Alion Science & Technology Corporation on 1 August 2019. This was a material acquisition for the Group, funded through an issue of new shares (equal to about 10% of the Company's issued share capital) and new debt. The acquisition is anticipated to generate a significant uplift to trading profit; as stated at the time of acquisition, in 2020 NSBU is expected to contribute Underlying Trading Profit of approximately \$27m (£20m).

Our in-flight 2017, 2018 and 2019 long-term incentive awards are, in part, assessed on EPS and ROIC performance. The targets for these awards were set prior to this acquisition. Analysis of the impact of the NSBU acquisition has shown this has resulted in a small increase in EPS (making the targets slightly easier to achieve) and will have a dilutive effect on ROIC (making these targets slightly harder). To ensure the EPS and

ROIC performance conditions remain appropriate, accurately reflect the true performance of the Group, and maintain the performance "difficulty" required for vesting as originally intended, in line with the discretion available under the approved Remuneration Policy the Committee approved the following adjustments:

Award	Performance measures and weightings	Original EPS and ROIC target range	Adjusted EPS and ROIC target range	Variance
2017 PSP	33.3% EPS 33.3% ROIC 33.3% TSR	EPS 13.5p – 16.5p ROIC 8.4% – 10.2%	EPS 13.63p – 16.63p ROIC 8.2% – 10%	EPS +0.13p ROIC -0.2%
2018 PSP	28.3% EPS 28.3% ROIC 28.3% TSR 7.5% Employee Engagement 7.5% Order Book	EPS 13.7p – 16.7p ROIC 9.9% – 12.2%	EPS 13.98p – 16.98p ROIC 9.6% – 11.9%	EPS +0.28p ROIC -0.3%
2019 LTIP	28.3% EPS 28.3% ROIC 28.3% TSR 7.5% Employee Engagement 7.5% Order Book	EPS 19p – 23.2p ROIC 15.6% – 19%	EPS 19.69p – 23.89p ROIC 15.2% – 18.6%	EPS +0.69p ROIC -0.4%

For the avoidance of doubt, no changes will be made to the TSR, Employee Engagement or Order Book targets where applicable. The corresponding EPS targets applicable to the legacy DBP awards are also adjusted in line with the EPS adjustments above.

In line with the approved Policy, the Committee does, and will continue to, consider the wider performance of the Group in determining the overall vesting of each award.

Remuneration linked to delivery of the strategic plan – 2019 variable pay outcomes

Overall, the Company's performance has delivered the incentive outcomes in 2019 summarised below.

KPI	Plan	2019 performance	2019 incentive outcome
Trading Profit	Annual Bonus	£116.7m ¹	●
Revenue	Annual Bonus	£3,103.0m ¹	●
Free Cash Flow	Annual Bonus	£67.9m ¹	●
Relative TSR	2017 PSP	Ranked 119/176	●
Average ROIC	2017 PSP	12.9%	●
Aggregate EPS	2017 PSP & 2017 DBP	17.11p	●

Note:

1. Trading Profit, Revenue and Free Cash Flow adjusted for bonus purposes. At constant currency.

● Below Threshold ● Between Threshold and Target ● Between Target and Max

In addition to these specific performance targets, the Committee also considered the Company's performance as a whole when deciding on levels of payout for the Annual Bonus and PSP, as well as when determining any salary increases for the coming year, to ensure that the overall remuneration packages continue to reflect Company performance. Assurances are sought from the Audit Committee (with regards to financial performance) as well as the Risk and Corporate Responsibility Committees as required to support these decisions. Following the conclusion of the SFO investigation and the entry in July 2019 by Serco Geografix Limited, a subsidiary of Serco Group plc, into a DPA with the SFO in relation to offences committed between 2010 and 2013 and Serco Group plc entering into an Undertaking with the SFO, the Committee is satisfied that no actions were required in

connection with the pay review or incentive outcomes determined for the current executives. Nobody who sat on the Board of Serco Group plc, or who was part of the Executive Management Team at the time the issues arose, works for Serco today. Furthermore, it is the hard work and determination of our current Executive Team and the changes that have been undertaken in the Group that enabled the Group to reach the agreement for Serco Geografix Limited to enter a DPA with the SFO. In determining the incentive outcomes for 2019 no discretion was applied by the Committee. The Committee will continue to monitor oversight by the other Committees and the Board of compliance with obligations agreed as part of the DPA and Undertaking, and take this into consideration in determining any future pay decisions.

Remuneration Report continued

Report on Directors' remuneration continued

Annual bonus payments are based on a combination of financial targets (a mix of trading profit, free cash flow and revenue with an overall 70% weighting) and personal objectives linked to the delivery of the Group's operational and strategic priorities (30%) including targets relating to HSE and employee engagement which are both critical to the success of our organisation. In addition, the Committee will consider the appropriateness of broadening the use of ESG metrics within the incentive arrangements during the forthcoming Policy review.

The strong financial performance in the year saw significant increases to trading profit in 2019 with trading profit for bonus purposes assessed to be £116.7m, and a second year of positive Free Cash Flow of £62.0m. For the first time since 2014 we are also pleased to confirm strong revenue performance, with revenues for 2019 at £3.248bn representing 15% total growth of which around 8% is organic. The Committee also considered the performance of the Executive Directors against their personal objectives. Taking into consideration aggregate performance against all measures, and the broader performance of the Company, it was agreed that bonuses of 94.0% and 93.3% of maximum should be awarded to the CEO and CFO respectively. These bonuses, to the extent they exceed 100% of salary for the relevant Director, are subject to mandatory deferral into shares for three years, therefore 39.2% of the bonus awarded to the CEO, and 30.8% of the bonus awarded to the CFO, will be deferred. Full details of the annual bonus outcomes are set out on pages 134 to 136.

The successful delivery of the corporate strategy over the last few years is also seen in the strong performance against the targets for the long-term incentives. The TSR performance period in respect of this tranche of the 2016 PSP awards (which vested in 2019) ended in 2019 and, due to good performance over the relevant period, the TSR performance was above median relative to our peers. In light of this performance the Committee determined that 39% of this tranche should vest in line with the performance condition. This resulted in an overall vesting outcome for the 2016 PSP awards of 79.67% when combined with the EPS and ROIC tranches which were determined to vest in full as disclosed in our 2018 Remuneration Report.

The performance period for the 2017 PSP awards ended in 2019. Despite the strong performance of the group, the TSR performance did not reach the threshold for vesting. However, the maximum EPS and ROIC targets were exceeded. Recognising the achievements made by the Executive and senior management teams in transforming the business and delivering a return to growth, the Committee determined an overall vesting outcome of 66.67% of maximum for the 2017 PSP award. These awards will vest in 2020. The long-term incentive outcomes are discussed further on pages 136 to 138.

Implementation of the approved remuneration policy in 2019

Base salaries

In reviewing the base salaries of the Executive Directors, the Committee takes into consideration a number of factors which follow the same pay review principles as applied to all colleagues across the Group. These include consideration of the individual's performance in their role, external market data and the wider economic environment. Base salaries for our

current CEO and CFO were set in a way which reflected the needs of the business at the time they were recruited in 2014, and the significant experience they both brought to the roles. Given the circumstances at the time, and their positions as experienced leaders of a FTSE100 business, the Committee recognised that it would have to pay highly (relative to FTSE250 companies) to attract them to what was then a business with a number of very significant challenges to face. Shareholders gave overwhelming support to their appointment and subsequently to their remuneration.

In 2018, the third Executive Director (the Chief Operating Officer) departed the business and a decision was made to not replace this role; the duties and responsibilities were instead split between the CEO, CFO and other Executive Committee members. The current base salary for the CEO was set on appointment and has been unchanged over the last five years. The CFO has received one, workforce aligned, 2% increase in 2019 in recognition of his additional duties since the departure of the COO and his contribution to the transformation of the business.

Recognising the significant contribution he has made to the Company, particularly in the context of his wider role following the departure of the COO, the Committee has decided to increase the base salary of the CFO by 2.5%, in line with the increase for the wider workforce. No increase to base salary is proposed for the CEO, for the sixth successive year.

Pensions

The Committee is very aware of the ongoing debate on pay fairness and in particular the focus on Executive pension opportunities. We are committed to aligning our pension opportunities for our Executive Directors with those available to our wider workforce. Our approved Remuneration Policy states that, for new hires, the pension opportunity will be up to 20% of salary. We wish to clarify that, should the event arise prior to a new Policy being approved at the 2021 AGM, the pension offered to any new Executive Director will be aligned to that of our wider UK workforce.

In addition, it has been agreed with the current CEO and CFO that their pension opportunities will be reduced by 10%, to 20% of salary with effect from 1 April 2020, with a further reduction to an amount commensurate with the opportunity available to the wider workforce to take effect from 1 January 2023. Further details may be found on page 133.

Bonus

Bonus targets are set to reflect the opportunities and challenges that the Company is likely to face in the coming year, and are based on trading profit, cash and revenue, together with key operational and strategically aligned personal objectives. The Committee is aware of the importance of health, safety and environmental risks associated with our organisation and ensures that an appropriate blend of targets, including those falling within these areas, are set each year. In line with the approved Remuneration Policy, any bonus earned over 100% of salary will be subject to compulsory deferral into shares for three years.

LTIP

In line with the approved Remuneration Policy, LTIP awards will be granted to Executive Directors which will be subject to a combination of financial (85% weighting) and strategic (15% weighting) measures. The financial targets will be set in relation to EPS, ROIC and relative TSR (with equal weighting) as these have been identified as key measures of the longer-term delivery of our strategy, with relative TSR also providing a measure aligned to the experience of you, our shareholders. The strategic performance targets will be set against our Order Book and Employee Engagement (equally weighted) which are considered absolutely critical to the success of our organisation. Targets are set taking into consideration market conditions and consensus.

Our people and culture

As set out in our 2019 People Report (www.serco.com/about/people-report), and echoed throughout this Annual Report, we are a people business with a team of more than 50,000 people responsible for delivering essential public services around the world. Our people are therefore critical to the success of Serco. As a Committee we have always been mindful of the remuneration and working practices throughout the wider Group and welcomed the Financial Reporting Council's revisions to the UK Corporate Governance Code encompassing greater stakeholder focus. Throughout the year, and particularly when decisions are being made on remuneration for Executives, the Committee discuss oversight of key people policy areas including diversity and gender pay reporting, employee engagement and feedback from our Employee Voice initiatives, together with the wider reward frameworks for our people.

All Non-Executive Directors undertake contract visits during the year to see first-hand the difference our colleagues make, speaking directly with front-line colleagues across the business. In addition, Kirsty Bashforth (who sits on the Remuneration Committee) is the Non-Executive Director leading on our Employee Voice initiatives at Board level including Colleague ConneXions. Kirsty is supported by the Group HR Director and our Colleague Communications Manager to ensure a dialogue between the Board and all our colleagues across our geographically diverse organisation. We utilise a number of mechanisms to ensure every colleague is heard, and hears back from the Board, and we were particularly pleased to have received almost 50,000 individual comments from colleagues via our annual Viewpoint employee survey, 13,467 of which were specifically under "Tell the Board". The Committee receives regular updates from the Employee Voice initiatives to further inform their decision-making.

We are confident that our remuneration policy for Directors, and the remuneration of the Executive Committee, is strongly aligned to our corporate strategy and our values of Trust, Care, Innovation and Pride. This alignment will be reconfirmed as we review our Policy over the coming year in anticipation of tabling a new Directors' Remuneration Policy for shareholders to consider at the 2021 AGM.

Diversity

As reported in our 2019 Gender Pay Gap Report (www.serco.com/genderpayreport) our 2019 consolidated UK median gender pay gap is 10.2%, representing a reduction from the 11.9% and 12.9% we reported in 2018 and 2017 respectively. Our gender pay gap is a measure of our wider talent gap and is primarily caused by having fewer women than men in senior leader positions, and fewer women in specialist and traditionally male dominated roles (such as Prison Custody Officers and engineers) – roles which tend to be more highly paid. We continue to make good progress in these areas with a focus on improving diversity across our whole organisation, of which gender diversity is just one part.

Stakeholder engagement

The Remuneration Committee is keen to hear the views of all stakeholders and as such, in addition to our engagement with our colleagues within the business as summarised above, the Committee regularly seeks input from shareholders in connection with both the design of the Remuneration Policy and the implementation of that Policy. In particular, we contacted our top shareholders (covering approximately 77% of the ownership of the Company) to share updates and invite feedback on how we had implemented the approved Policy during 2019, and our planned implementation in 2020. The details of the Policy implementation in 2019, and the proposals for 2020, are shared in this report in more detail. The outcome of this engagement was that shareholders were supportive of the Committee's approach. In addition to the direct engagement with shareholders, our Investor Relations team are in regular contact with our shareholders and share any feedback or queries on remuneration throughout the year so that we can maintain an ongoing dialogue. We will be seeking further consultation with our stakeholders as we review our Policy during the course of 2020.

Concluding comments

On behalf of my colleagues on the Committee, we appreciate the input and support we have received on the implementation of our Policy in 2019. The Committee believes that the Policy has, and in 2020 will continue to, ensure that the executive management team are rewarded for and incentivised to achieve the strategic goals of the Company as we continue to embed the Growth phase of the corporate plan. In the coming year, we will review the Policy as the Company looks ahead to ensure that our remuneration policies continue to robustly align to our forward looking strategy, the interests of our shareholders and colleagues, and reflects our culture while delivering good corporate governance on remuneration practices.



Lynne Peacock
Chair of the Remuneration Committee
25 February 2020

Remuneration Report continued

This remuneration report has been prepared in accordance with the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the "Regulations"). The report also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the Board has complied with the principles and provisions of the UK Corporate Governance Code relating to remuneration matters.

The Remuneration Committee

The role of the Committee is to determine and recommend to the Board a fair and responsible remuneration framework that aligns the executive management team to shareholders' interests and is designed to reward and incentivise them appropriately for their contribution to Group performance. The Committee's primary focus is to ensure a clear link between reward and performance. This means ensuring that the policy, structure and levels of remuneration for the Executive Directors reinforce the strategic aims of the business and are appropriate given the market context in which Serco operates and the reward strategy throughout the rest of the business.

The Committee's composition, responsibilities and operation comply with the principles of good governance as set out in the UK Corporate Governance Code, with the Listing Rules and with the Companies Act 2006. The Terms of Reference of the Committee are available on the Company's website.

Members of the Committee and attendees

All members of the Committee are independent, Non-Executive Directors of the Company, initially appointed for a three-year term. That appointment may be terminated on three months' written notice. Lynne Peacock joined the Committee on 1 July 2017 and has been Chair of the Remuneration Committee since 15 September 2017. Sir Roy Gardner, John Rishton and Kirsty Bashforth have been members of the Remuneration Committee since 1 June 2015, 13 September 2016 and 15 September 2017 respectively.

In addition, the following individuals attended the Remuneration Committee meetings during the year:

	Position	Comments
Rupert Soames	CEO	Attends by invitation
Anthony Kirby	Group HR Director	Attends as an executive responsible for advising on the People Strategy
Lianne Dance	Group Reward Director	Attends as an executive responsible for advising on the Remuneration Policy
David Eveleigh	Group General Counsel & Company Secretary	Attends as the secretary to the Committee
Stuart Haydon	Interim Deputy Company Secretary	
PricewaterhouseCoopers LLP	External advisers to the Remuneration Committee	Attend when required as the independent advisers to the Committee

Note:

No person is present during any discussion relating to their own remuneration arrangements.

Summary of the Committee's activities during 2019

Meeting	Items covered
February	Considered feedback from the shareholder consultation on the implementation of the Remuneration Policy; considered performance against 2018 targets and confirmation of 2018 bonus payable; reviewed and approved the 2018 Remuneration Report; approved the performance framework for the 2019 bonus plan; reviewed and adopted the 2019 Deferred Bonus Plan (a discretionary plan for below Board participants only) and revised Equity Settled Bonus Plan rules; reviewed and approved new Long-Term Incentive Plan rules for approval by shareholders; reviewed achievement of performance conditions for the LTI vesting in respect of awards granted in 2014 and 2016.
May	Received a market practice and corporate governance update regarding executive remuneration; considered AGM voting outcomes; approved the framework for retention awards to be granted in connection with a major acquisition; set performance targets and objectives for 2019; and considered the forward agenda and timing of meetings for 2019.
September	Received a market practice and corporate governance update regarding executive remuneration; received an update on the Employee Voice programme and wider workforce demographics, pay and reward, culture and engagement; received the 2019 gender pay gap figures; considered the first draft of the 2019 Remuneration Report; received an update on performance in respect of in-flight share awards; considered and approved the approach to 2019/20 executive pay review; reviewed and approved revised Terms of Reference; considered the forward looking programme of work for 2020.
December	Considered the Company's 2019 Gender Pay Gap report; received an update on the Employee Voice programme and wider workforce demographics, pay and reward, culture and engagement to inform decision-making; considered a further draft of the 2019 Remuneration Report; agreed the approach to shareholder engagement in respect of the 2019 reporting; considered and approved pay review proposals for the Executive Directors and Executive Committee members; considered and approved the approach to Executive Director pensions; considered and approved the annual bonus structure (including performance framework principles) and long-term incentive grant policy to apply in 2020 for Executive Directors and the Executive Committee members; considered and approved adjustments to LTI targets for in-flight awards in respect of the 2019 NSBU acquisition; received an update on performance in respect of in-flight share awards.

Advisers to the Remuneration Committee

The Committee has been advised during the year by PricewaterhouseCoopers LLP (PwC). PwC were selected as advisers to the Committee through a competitive tendering process in 2012 and no conflicts of interest were identified. PwC have provided advice throughout the year mainly around the following key executive reward areas:

- support in reviewing the Directors' Remuneration Report;
- review of incentives and pensions;
- informing the Committee on market practice and governance issues; and
- assistance with general and technical reward queries.

Fees paid to PwC as advisers to the Committee during the year totalled £24,700. Fees are charged on an hourly rate basis.

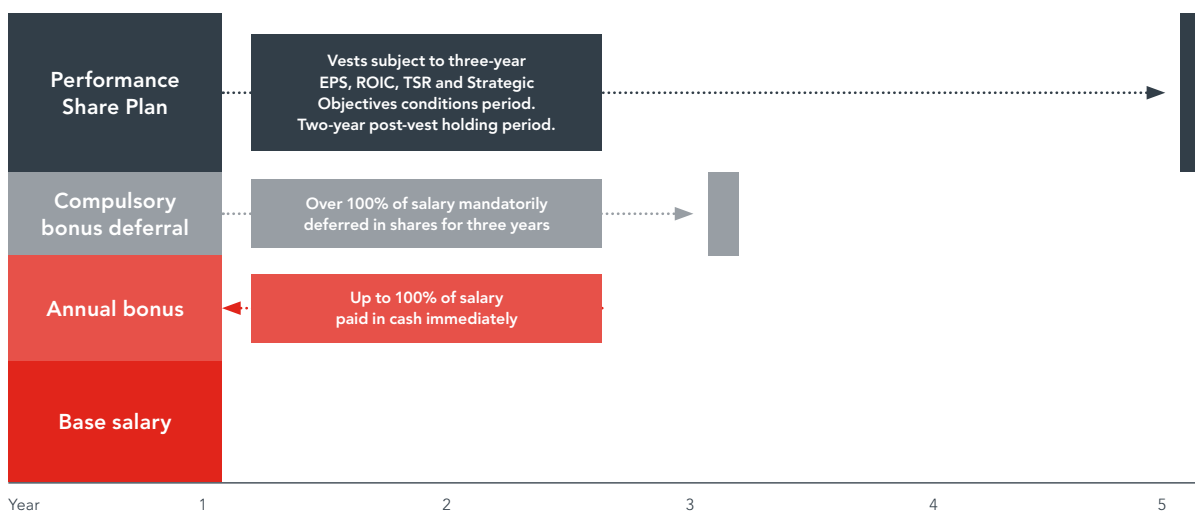
PwC are members of the Remuneration Consultants' Group, which oversees the voluntary code of conduct in relation to executive remuneration consulting in the UK.

The Committee reviews the objectivity and independence of the advice it receives from PwC each year. It is satisfied that PwC are providing robust and professional advice. In the course of its deliberations, the Committee considers the views of the Chief Executive on the remuneration and performance of the other members of the Executive Committee.

Remuneration Report continued

At a glance: implementation of Remuneration Policy for 2020

There are no changes proposed to the Policy approved by shareholders at our 2018 AGM, a summary of which is set out at the end of this report. Our pay structure which will continue to apply in 2020 is summarised as follows:



Note:

Chart is illustrative and is not to scale. Details of Executive Director remuneration for 2020 may be found on page 132. A summary of the Executive Remuneration Policy that was approved by shareholders at the 2018 AGM can be found on pages 144 to 148, the full approved 2018 Directors' Remuneration Policy is set out in the 2017 Director's Remuneration Report which is available via our website.

How our variable pay structure aligns to the core KPIs for 2020

Our aspiration is to be the best managed company in our sector. To achieve this we concentrate on doing four things really well; winning good business, executing brilliantly, being a place people are proud to work and being profitable and sustainable. Our variable pay for 2020 aligns to this through the targets set against a number of our core KPIs, each of which has an important role in realising this aspiration. Total Shareholder Return aligns variable pay with value created for shareholders.

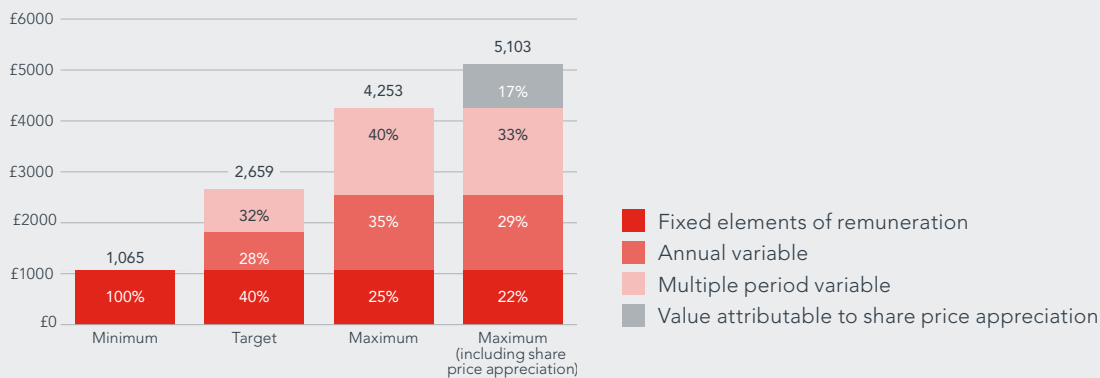
Core KPIs		Annual bonus	PSP
Financial	Non-financial		
Trading Profit		✓	
Revenue		✓	
Free Cash Flow		✓	
	In-year non-financial objectives	✓	
Relative TSR			✓
Average ROIC			✓
Aggregate EPS			✓
	Growth-aligned strategic objectives ¹		✓

Note:

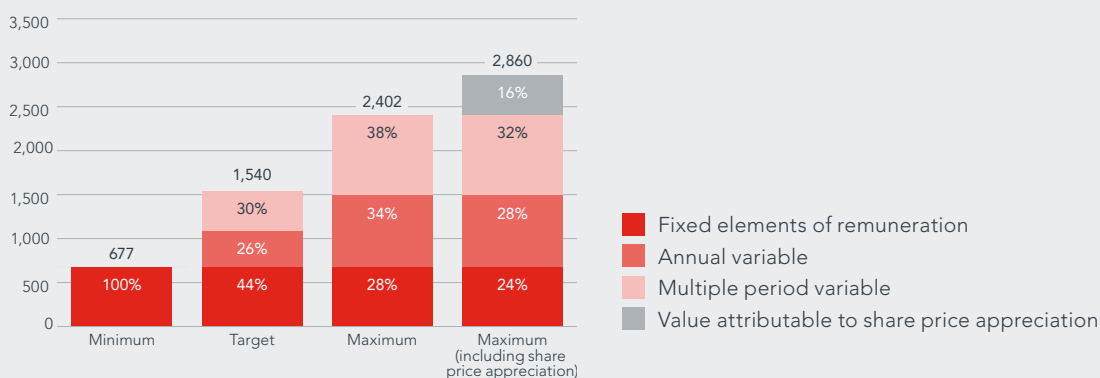
1. For grants to be made in 2020 these will be based on Employee Engagement and Order Book targets (with equal weighting).

The following charts illustrate the value that may be delivered to Executive Directors under different performance scenarios for the year ending 31 December 2020.

Rupert Soames (£000s)



Angus Cockburn (£000s)



The scenarios in the above graphs are defined as follows:

- Fixed elements of remuneration:
 - Base salary as applicable from 1 April 2020.
 - Estimated value of benefits to be provided in 2020 in line with the Remuneration Policy (based on the value of actual benefits provided in 2019).
 - Pension contribution/cash supplement equal to 20% of salary as applicable from 1 April 2020.
- Annual bonus and Performance Share Plan participation as set out in the Policy table. In all cases, target performance results in delivery of 50% of maximum opportunity. The Performance Share Plan values reflect the “face value” at grant of shares that could be received for target and maximum performance. The Performance Share Plan value under the maximum scenario is also shown assuming 50% share price appreciation over the performance period.

Remuneration Report continued

Implementation of Remuneration Policy for 2020 – Executive Directors

Element	CEO (Rupert Soames)	CFO (Angus Cockburn)								
Base salary from 1 April 2020	£850,000	£522,750								
Pension from 1 April 2020 ¹	20% of salary	20% of salary								
Annual bonus	Max 175% of salary On-target 87.5% of salary	Max 155% of salary On-target 77.5% of salary								
	Compulsory three-year deferral into Serco shares of bonus over 100% of salary									
Annual bonus measures ²	<table border="1"> <tr> <td>28% Trading Profit</td> <td>28% Cash Flow</td> <td>14% Revenue</td> <td>30% in year non-financial objectives</td> </tr> <tr> <td colspan="2">70% financial</td> <td colspan="2">30% non-financial</td> </tr> </table>		28% Trading Profit	28% Cash Flow	14% Revenue	30% in year non-financial objectives	70% financial		30% non-financial	
28% Trading Profit	28% Cash Flow	14% Revenue	30% in year non-financial objectives							
70% financial		30% non-financial								
Performance Share Plan (PSP)	Maximum 200% of salary	Maximum 175% of salary								
PSP measures ³ Assessed over the three-year performance period	<p>Awards granted under the LTIP in 2020 will be subject to Group performance over a three-year period ending 31 December 2022.</p> <p>For 2020, 85% of the award will be based on financial measures split equally between:</p> <ul style="list-style-type: none"> Aggregate EPS – Statutory Earnings Per Share (EPS) before exceptional items (adjusted to reflect tax paid on a cash basis), measured as an aggregate over the performance period. Relative TSR – Total Shareholder Return (TSR) when ranked relative to companies in the FTSE 250 (excluding investment trusts). Average ROIC – Pre-tax Return on Invested Capital (ROIC), measured as an average over the performance period. <p>For 2020 the remaining 15% will be based on Strategic Objectives – performance targets for the awards granted in 2020 will be based on improvements in order book and employee engagement, which are critical to delivering the business strategy over the next three years. The Committee has concluded that a weighting of 15% for strategic measures and 85% for financial measures is an appropriate balance.</p>									
Holding requirement	Vested shares from the PSP must be held for two years post-vesting (after payment of tax).									
Shareholding guideline	200% of salary	150% of salary								
Malus and clawback	<ul style="list-style-type: none"> Malus provisions and clawback provisions apply to PSP awards during the three-year performance period prior to vesting and the two-year post-vesting holding period respectively. Clawback provisions apply to the annual bonus plan. 									

Notes:

- As the first step towards aligning the pension opportunities for the incumbent Executive Directors with that for the wider workforce, with effect from 1 April 2020 the pension opportunity for the incumbent CEO and CFO will be reduced from 30% to 20% of salary. The pension contribution rate for any new Directors will be in line with the pension for the wider UK workforce. Further commentary regarding the pension opportunities available to Executive Directors is set out on page 133.
- The Committee deems the specific details of the performance measures and targets to be commercially sensitive as they are intrinsically linked to the forward-looking strategic plans of the business. Full disclosure will be provided in the Annual Report on Remuneration for the year in which final performance is assessed provided these details are no longer considered sensitive.
- The Committee sets the performance targets in respect of the PSP immediately prior to the grant of the award to take into consideration market consensus and forecast following the announcement of the prior year's financial results to ensure that targets are sufficiently stretching and therefore these are not yet determined. Details of the performance targets will be disclosed in the Annual Report on Remuneration for the year in which the awards are made to the extent that they are not deemed commercially sensitive at that time. Full retrospective disclosure will be made of any details that are withheld once this information is no longer deemed commercially sensitive by the Committee.

Executive Directors' pension opportunities

The Committee is mindful that the pension opportunities for our incumbent Executive Directors are high, relative to our wider workforce, and is committed to aligning these with the opportunity available to the wider workforce. The pension opportunities were set on the appointment of our Executive Directors, to provide a market competitive package to secure their employment (and at the same level as received at their former employer, Aggreko plc) and were reflective of the size of the Company at that time.

We note the recent guidance from both the organisations representing investors, and key investors themselves, regarding the opportunities available to incumbent directors. Our Executive Directors are also mindful of the pension opportunities available to the wider workforce and, with their agreement, in order to comply with the recent guidance, the Committee will implement a two-step reduction in their pension opportunities so that by 1 January 2023 their pensions will be broadly aligned with the wider workforce opportunity at around 10%.

The first step will be a significant reduction from the current opportunity of 30% of salary to 20% of salary to take place in 2020. The second step will be a further reduction from 20% to around 10%, to take effect from 1 January 2023. Any new appointment at Executive Director level between now and 1 January 2023 will be at around 10%. The Policy will be formally updated to reflect this when a new Policy is presented to shareholders at the 2021 AGM.

With a very diverse workforce employed in a variety of pension arrangements (including defined benefit and defined contribution schemes) we are also continuing to review the arrangements for our wider workforce and we will report on this work as appropriate.

Implementation of Remuneration Policy for 2020 – Non-Executive Directors

The Non-Executive Director fees were last changed with effect from 1 January 2019. Following a review of the Non-Executive Director fees it was agreed that these fees should remain unchanged for 2020. In line with the approved Non-Executive Directors' Remuneration Policy, the fees for the period from 1 January 2020 will be as follows:

	Base fee to apply from 1 January 2020 £	Base fee 1 January 2019 £	Change £
Element – Annual Board and Committee fees			
Chairman	250,000	250,000	No change
Senior Independent Director	15,000	15,000	No change
Board fees	53,000	53,000	No change
Chairmanship of a Board Committee (Audit, Corporate Responsibility, Group Risk or Remuneration)	12,500	12,500	No change
Membership of a Board Committee (Audit, Corporate Responsibility, Group Risk or Remuneration)	5,000	5,000	No change

No additional fee is payable for the Chair or Membership of the Nomination Committee. The Chairman does not receive any additional fees for his Committee memberships nor do the Executive Directors where they sit on Board Committees.

Dates of Directors' service contracts/letters of appointment

Directors who served on the Board during the financial year ended 31 December 2019.

Director	Date of appointment to the Board
Sir Roy Gardner	1 June 2015
Rupert Soames	8 May 2014
Angus Cockburn	27 October 2014
Kirsty Bashforth	15 September 2017
Eric Born	1 January 2019
Ian El-Mokadem	1 July 2017
Rachel Lomax	3 March 2014
Lynne Peacock	1 July 2017
John Rishton	13 September 2016

Each Director is subject to election at the first AGM following their appointment and re-election at each subsequent AGM.

Remuneration Report continued

Annual Report on Remuneration The implementation of the Remuneration Policy for year ended 31 December 2019

The Remuneration Policy applied for the year ended 31 December 2019 was consistent with the policy approved by shareholders at the AGM in 2018. We have not deviated from the approved Policy in respect of any payments made during 2019.

Single Figure – Directors’ remuneration (audited information)

Executive Directors’ single figure

The following table shows a single total figure of remuneration in respect of qualifying services for 2019 for each Executive Director, together with comparative figures for 2018. Details of NEDs’ fees are set out in the next section.

All figures in £	Rupert Soames		Angus Cockburn	
	2019	2018	2019	2018
Salary ¹	850,000	850,000	507,500	500,000
Taxable benefits ²	44,197	38,865	49,831	53,889
Pension ³	255,000	255,000	152,250	150,000
Total Fixed Remuneration	1,149,197	1,143,865	709,581	703,889
Bonus ⁴	1,398,250	1,146,863	737,141	585,900
Long-Term Incentives ^{5,6}	3,153,530	2,885,037	1,610,280	1,477,873
Total Variable Remuneration	4,551,780	4,031,900	2,347,421	2,063,773
Total	5,700,977	5,175,765	3,057,002	2,767,622

Notes:

- As set out in our 2018 DRR, Angus Cockburn’s salary was increased to £510,000 p.a. with effect from 1 April 2019.
- The taxable benefits relate to the provision of independent financial advice, a car or car allowance (fully inclusive of all scheme costs including insurance and maintenance), health care and private medical assessments, as well as taxable business expenses. Where Serco settles the PAYE and NIC liability in respect of benefits provided, the value of the benefit has been grossed up at the individual’s marginal tax rate. The taxable benefits for 2019 includes an individual benefit value of £25,744 in respect of Rupert Soames’ company car in the year.
- The pension amount includes payments made in lieu of pension, calculated as a percentage of base salary, from which the Executive Directors make their own pension arrangements.
- Performance bonuses earned in the period under review and paid in the following financial year. For 2019 this figure includes £548,250 of Rupert Soames’ and £227,141 of Angus Cockburn’s 2019 bonuses which will be subject to mandatory deferral into Serco shares for a three-year period at the point the bonuses are paid in 2020.
- This is the estimated or actual value of Long-Term Incentives for which the performance period ended in the year. Note this includes sums in connection with the legacy Deferred Bonus Plan which the Executive Directors can no longer participate in. Further details are provided on page 136 onwards.
- The Long-Term Incentive values reported for 2018 have been restated to reflect the actual share price at the relevant vest dates for the awards (in respect of the 2016 PSP Awards which vested on 8 April 2019: £1.2423, and in respect of the legacy 2016 DBP Awards which vested on 3 May 2019: £1.2497).

Variable pay outcomes (audited information)

Performance-related annual bonus

For 2019, the Executive Director bonus was based on achieving a mix of financial and non-financial objectives which were weighted 70:30 respectively. The financial measures were based on Trading Profit (40%), Free Cash Flow (40%) and Revenue (20%) and the non-financial measures were individually set and based on key strategic goals. Payments under the 2019 annual bonus were subject to an Underlying Trading Profit underpin (after adjustment for in-year Onerous Contract Provisions (OCP) items) of £94.6m at constant currency rates.

The Remuneration Committee reviewed the achievements against the targets for the year and the proposed annual incentive payments for the Executive Directors. The tables below show the achievement against the financial and non-financial measures.

Financial performance

Performance measure	Weighting for 2019 (% maximum bonus opportunity)	Threshold target (£m)	Target (£m)	Maximum target (£m)	Actual performance ¹ (£m)	Achievement against measure (% maximum opportunity for this measure)
Revenue	14%	£2,958	£3,000	£3,050	£3,103m	100%
Free Cash Flow	28%	£12.9	£27.7	£42.5	£67.9m	100%
Trading Profit	28%	£94.6	£99.3	£108.7	£116.7m	100%

Note:

- At constant currency.

Non-financial performance

Weighting for 2019 (% maximum opportunity)	30%	
	Rupert Soames	Angus Cockburn
Achievement against measure (% maximum opportunity for this measure)	80.0%	77.5%

Overall 2019 bonus outcome

	Rupert Soames	Angus Cockburn
Total bonus payable as % of maximum	94.0%	93.3%
Bonus opportunity as % of salary	175%	155%
Bonus amount achieved as % of salary	164.5%	144.5%
Bonus amount earned ¹	£1,398,250	£737,141

Note:

1. Bonuses earned over 100% of salary are subject to mandatory deferral into Serco shares for three years.

Revenue of £3,248.4m has been reduced by -£42.2m to convert to 2018 constant currency, so that it is consistent with the targets set at the beginning of the year, and a further -£103.1m to remove the results of the Alion acquisition (at 2018 constant currency), resulting in Revenue for bonus purposes of £3,103.1m.

Free Cash Flow of £62.0m has been adjusted to exclude the capital element of finance leases of +£5.9m so that it is consistent with the definition of Free Cash Flow when the targets were set at the beginning of the year, giving Free Cash Flow for bonus purposes of £67.9m.

Trading Profit of £133.4m is adjusted by the Committee to arrive at a figure for Trading Profit for bonus purposes; shareholders were consulted on the principles behind these adjustments in early 2015, and the bonus outcome for both 2015, 2016, 2017 and 2018 reflected these principles, the purpose of which is to ensure that management are measured against their in-year performance and are not given credit for gains for which they have not materially influenced. The Committee has applied 2019 in a consistent manner to the principles established in 2015, 2016, 2017 and 2018.

The first adjustment is to put Trading Profit into constant currency, so that it is consistent with the targets set at the beginning of the year; this is a -£4.1m decrease. The Committee then considers items to properly reflect management effort and in-year operational performance. The Committee has concluded that a total of -£12.6m should be deducted from Trading Profit in constant currency to arrive at a calculation of Trading Profit for bonus purposes in 2019; this compares with -£15.2m which was deducted from Trading Profit in 2018.

For the purposes of comparison, the table below sets out the adjustments made by the Committee between Trading Profit and Trading Profit for bonus purposes in 2015, 2016, 2017, 2018 and 2019.

£m	2019	2018	2017	2016	2015
Trading Profit	133.4	116.7	54.0	100.3	137.6
Constant currency adjustment	(4.1)	4.4	(6.8)	(5.7)	7.7
Trading Profit at constant currency	129.3	121.1	47.2	94.6	145.3
Adjustment for bonus purposes	(12.6)	(15.2)	23.6	(20.9)	(32.9)
Trading Profit for bonus purposes	116.7	105.9	70.8	73.7	112.4
Underlying Trading Profit at constant currency	116.5	97.1	63.4	73.4	95.9

Remuneration Report continued

Rupert Soames

Rupert's objectives included:

- Improving Business Development performance to deliver a reported pipeline of at least £5.0bn.
- Lead the execution and subsequent delivery of acquisitions.
- Supporting the achievement of a Group Engagement Score of at least 66.
- Maintaining and strengthening the reputation of Serco in the investment community and in the wider world.

The Committee deemed performance to be very strong overall. Rupert has continued to show highly effective and visible leadership throughout 2019, and over the course of the last 12 months has delivered another year of strong performance in line with the plan set out in 2015. Underlying Trading Profit increased by 29% and 2019 saw revenue growth of 15% which is the first time revenue has grown in 5 years. The year saw record order intake of £5.4bn and book-to-bill at its highest level at 170%. Over 40% of the order intake was new business wins which were coupled with successful rebids and extensions. Notable wins include the UK asylum accommodation contracts and the prisoner escorting contracts. In addition, in 2019, we successfully identified and completed a material acquisition for the Group of NSBU, which has significantly added to the scale and capability of our defence business. This was achieved alongside the swift integration of the Carillion Health contracts and the turnaround of the BTP acquisition, both acquired in 2018. Strong performance has also been seen in other areas with the Group employee engagement score increasing to 71 points as measured by our annual employee engagement survey. Rupert is key to the reputation of Serco with investors and the wider community on a global basis. The achievement of new business wins in excess of £5bn is testament to the positive customer perception of Serco. Based on Rupert's achievement the Committee has awarded 80% of maximum performance for the non-financial element relating to his objectives.

Angus Cockburn

Angus's objectives included:

- Improving Business Development performance to deliver a reported pipeline of at least £5.0bn.
- Bedding down and consolidating the Finance Transformation, Purchase Transformation and SAP migration.
- Delivery of financing required to support acquisitions.
- Maintaining the reputation of Serco in the investment community.

Overall, the Committee deemed Angus's performance to be very strong against his objectives. He has successfully delivered against financial targets and City expectations, culminating in the confidence to resume paying dividends for the first time in 6 years. Angus has made a significant contribution to the delivery of the strong performance in 2019 with a further year of significant profit growth, revenue growth of 15% (for the first time in 5 years) and a book-to-bill ratio of 170% with order intake of over £5bn. Adjusted net debt of £215m results in leverage broadly unchanged on last year and at the lower end of our normal target range of 1-2x. Angus has overseen the successful consolidation of the Global Finance Transformation from which we are now realising the benefits of significantly improved systems and processes. He has also delivered on the procurement transformation and supported the successful SAP migration. The NSBU acquisition was successfully completed in August 2019 and mainly funded through an Equity Placing which was very well supported by our institutional shareholders. The reputation of Serco within the wider investment community is now much stronger than it has been in the past 5 years as is evident in our share price performance and reflected in increased market capitalisation to c.£2bn, and our ability to re-finance as seen in the successful Equity Placing for the NSBU acquisition. Based on Angus's achievement the Committee has awarded 77.5% of maximum performance for the non-financial element relating to his objectives.

Long-term incentives

The long-term incentives amount included in the 2019 single total figure of remuneration includes the following Performance Share Plan and legacy Deferred Bonus Plan Awards.

Performance share plan (PSP)

A number of Performance Share Plan awards are included in the 2019 single figure of remuneration for the Executive Directors:

- the TSR element of the 2016 PSP awards (33.3% of the total award) with a performance period ending on the announcement of the Company's 2018 results on 21 February 2019; and
- all elements of the 2017 PSP awards which are subject to TSR, EPS and ROIC performance in the period to 31 December 2019.

The remainder of the 2016 PSP awards were subject to EPS (33.3%) and ROIC (33.3%) performance conditions for which the performance periods ended 31 December 2018. These tranches were determined to vest in full, as disclosed in the 2018 DRR and the single figure table for 2018.

The overall vesting for the 2016 PSP Awards was determined to be 79.67% (taking into consideration the performance against

the TSR, EPS and ROIC tranches as a whole and the performance of the wider Group). The overall vesting of the 2017 PSP Awards was determined to be 66.67%. The 2016 and 2017 PSP awards were granted in the form of nominal cost options.

The performance assessment and vesting outcomes for the 2016 PSP TSR tranche, and all tranches of the 2017 PSP award, are as follows.

Performance condition and Award relative weighting	Threshold ² – 25% vesting	Performance measured	Maximum – 100%	Result vesting (% of maximum)
2016 PSP Relative TSR ¹ (1/3)	Median ranking	Rank: 84/184 Between median and upper quartile	Upper Quartile ranking	39%
2017 PSP Relative TSR ² (1/3)	Median ranking	Rank: 119/176 Below median	Upper Quartile ranking	0%
2017 PSP Aggregate EPS ^{3,4} (1/3)	13.63p	17.11p	16.63p	100%
2017 PSP Average pre-tax ROIC ^{3,5} (1/3)	8.2%	12.9%	10.0%	100%

Notes

- For the 2016 PSP, the Company's TSR performance was assessed relative to the constituents of the FTSE 250, excluding investment trusts, over the period starting on the announcement of the Company's 2015 results on 25 February 2016 and ending on 21 February 2019 with the announcement of the Company's results for the 2018 financial year. The Company's TSR (29.3%) ranked between median and upper quartile giving a vesting outcome of 39%. The Committee determined that this was an appropriate reflection of the Company's performance and did not vary the formulaic vesting outcome.
- For the 2017 PSP, the Company's TSR performance was assessed relative to the constituents of the FTSE 250, excluding investment trusts, over the three-year period ended 31 December 2019. The Company's TSR (10.8%) ranked below median.
- The 2017 EPS and ROIC performance targets are the adjusted targets following the NSBU acquisition. As set out in the Chair's Statement, it was agreed that the performance targets for these awards should be adjusted following this significant acquisition for the Group in order to ensure that the targets accurately reflect the true performance of the Group, and that they maintain the performance "difficulty" required for vesting as originally intended. The original 2017 target ranges were: for EPS, 13.5p (threshold) to 16.5p (max); and for ROIC, 8.4% (threshold) to 10.2% (max).
- The financial outturns supporting the three year aggregate EPS performance of 17.11p reflect reported values; being pre-IFRS 15 for 2017, and post IFRS 15 for 2018 and 2019. A separate internal assessment for the impact of IFRS 15 on Trading Profit was undertaken to support the Committee's assessment that the EPS performance related element of the 2017 PSP should vest in full. The impact of IFRS 15 was determined to be relatively minor, and did not impact the vesting levels of 100% for the EPS tranche of the 2017 PSP award.
- ROIC targets for the 2017 PSP award were also set pre IFRS 15. The financial outturn above reflects the average of reported ROIC; being pre IFRS 15 for 2017, and post IFRS 15 for 2018 and 2019. As for the EPS outcome, an adjusted calculation was also performed to assess the impact of IFRS 15 on the vesting outcome, and the impact on ROIC performance was determined to not affect the vesting outcome.
- In all cases 25% of the award vests at threshold performance, rising on a straight-line basis to 100% vesting at maximum performance.

Executive Director	Award	Date of grant	No. of shares awarded	No. of shares vesting	Vesting date	Share price at vest	Value of vesting	Value attributable to share price appreciation ²
Rupert Soames	2016 PSP (TSR)	6 April 2016	589,971	230,088	8 April 2019	£1.2423	£281,237	£64,839
	2017 PSP (TSR)	6 April 2017	501,475	0	6 April 2020	£1.5410 ¹	£0	£0
	2017 PSP (EPS)	6 April 2017	501,475	501,475	6 April 2020	£1.5410 ¹	£762,767	£206,130
	2017 PSP (ROIC)	6 April 2017	501,474	501,474	6 April 2020	£1.5410 ¹	£762,765	£206,129
Angus Cockburn	2016 PSP (TSR)	6 April 2016	303,661	118,427	8 April 2019	£1.2423	£144,753	£33,373
	2017 PSP (TSR)	6 April 2017	258,112	0	6 April 2020	£1.5410 ¹	£0	£0
	2017 PSP (EPS)	6 April 2017	258,112	258,112	6 April 2020	£1.5410 ¹	£392,600	£106,096
	2017 PSP (ROIC)	6 April 2017	258,112	258,112	6 April 2020	£1.5410 ¹	£392,600	£106,096

Notes:

- As these awards are still to vest at the time of reporting the share price used (£1.5410) is the Q4 average closing share price to 31 December 2019.
- In respect of the 2016 PSP, the value included in the single figure reflects an increase in the share price from that at grant (£0.9605) to the share price at vest (£1.2423). In respect of the 2017 PSP awards, the value included in the single figure reflects an increase in the share price from that at grant (£1.1300) to the estimate of the share price at vest (based on the 2019 Q4 average share price). The Committee believes that the share price movement appropriately reflects the broader performance of the Company and therefore did not make any discretionary adjustments to the vesting of these awards.

Remuneration Report continued

Deferred bonus plan (DBP)

This is a legacy element of remuneration for Executive Directors, which was removed from the Remuneration Policy in 2018. As such the Executive Directors can no longer participate in this arrangement but hold unvested awards granted under the previous Remuneration Policy. The final payout to any Executive Director under this element is due to be disclosed in the 2020 DRR.

The performance period for the 2017 Deferred Bonus Plan (DBP) Matching Share Award (a conditional share award) wholly subject to EPS performance ended on 31 December 2019.

As set out on page 125, the 2017 EPS target was adjusted following the acquisition of the NSBU business by the Group. Based on the adjusted targets; 25% of this award vests for threshold performance of an Adjusted EPS of 13.63p rising on a straight-line basis to 100% vesting for at or above maximum performance of an Adjusted EPS of 16.63p measured as an aggregate over the three-year performance period. The original target range was set at 13.5p (threshold) to 16.5p (max). The Adjusted EPS for the period was measured as 17.11p. Having considered the wider performance of the Company over the three-year period the Committee is satisfied that the 2017 DBP Matching Share Award should vest in full.

Executive Director	Date of grant	No. of shares awarded	No. of shares vesting	Vesting date	Share price at vest	Value of vesting	Value attributable to share price appreciation ²
Rupert Soames	9 May 2017	873,926	873,926	9 May 2020	£1.5410 ¹	£1,346,761	£297,438
Angus Cockburn	9 May 2017	441,470	441,470	9 May 2020	£1.5410 ¹	£680,326	£150,253

Notes:

- As these awards are still to vest at the time of reporting the share price used is the Q4 average closing share price to 31 December 2019.
- The value included in the single figure reflects an increase in the share price from that at grant (£1.2007) to the estimate of the share price at vest (based on the 2019 Q4 average share price). The Committee believes that the share price movement appropriately reflects the broader performance of the Company and therefore did not make any discretionary adjustments to the vesting of these awards.

Single figure – Non-Executive Directors' remuneration (audited information)

Non-Executive Directors' remuneration consists of cash fees paid monthly with increments for positions of additional responsibility. In addition, reasonable travel and related business expenses are paid. No bonuses are paid to Non-Executive Directors. Non-Executive Directors' fees are not performance-related.

Non-Executive Directors are encouraged to hold shares in the Group but are not subject to a shareholding requirement.

The fees and terms of engagement of Non-Executive Directors are reviewed on an annual basis, taking into consideration market practice and are approved by the Board.

	Board fee (including Chairmanship fees) (£)		Taxable benefits ⁸ (£)		Total (£)	
	2019	2018	2019	2018	2019	2018
Sir Roy Gardner ¹	250,000	250,000	14,222	19,004	264,222	269,004
Kirsty Bashforth ²	73,833	57,917	3,424	1,973	77,257	59,889
Eric Born ³	63,000	N/A	2,867	N/A	65,867	N/A
Ian El-Mokadem ⁴	63,000	61,750	–	–	63,000	61,750
Rachel Lomax ⁵	70,500	70,000	–	–	70,500	70,000
Lynne Peacock ⁶	70,500	65,000	–	–	70,500	65,000
John Rishton ⁷	90,500	75,500	1,775	2,520	92,275	78,020
Total	681,334	580,167	22,288	23,497	703,622	603,664

Notes:

- Sir Roy Gardner is Chairman of the Board, Chair of the Nomination Committee and a Member of the Remuneration and Corporate Responsibility Committees.
- Kirsty Bashforth is Chair of the Corporate Responsibility Committee and a Member of the Remuneration and Group Risk Committees.
- Eric Born is a Member of the Audit and Corporate Responsibility Committees.
- Ian El-Mokadem is a Member of the Group Risk and Corporate Responsibility Committees.
- Rachel Lomax is Chair of the Group Risk Committee and a Member of Audit and Nomination Committees.
- Lynne Peacock is Chair of the Remuneration Committee and a Member of the Audit and Nomination Committees.
- John Rishton is the Senior Independent Director, Chair of the Audit Committee and a Member of the Nomination, Remuneration and Group Risk Committees.
- Taxable benefits in 2018 and 2019 relate to reimbursed taxable travel and subsistence business expenses.

Pensions (audited information)

As at 31 December 2019, there were no Executive Directors actively participating in, or accruing additional entitlement in, the Serco Pension and Life Assurance Scheme which is a defined benefits scheme.

Payments for loss of office and to past Directors (audited information)

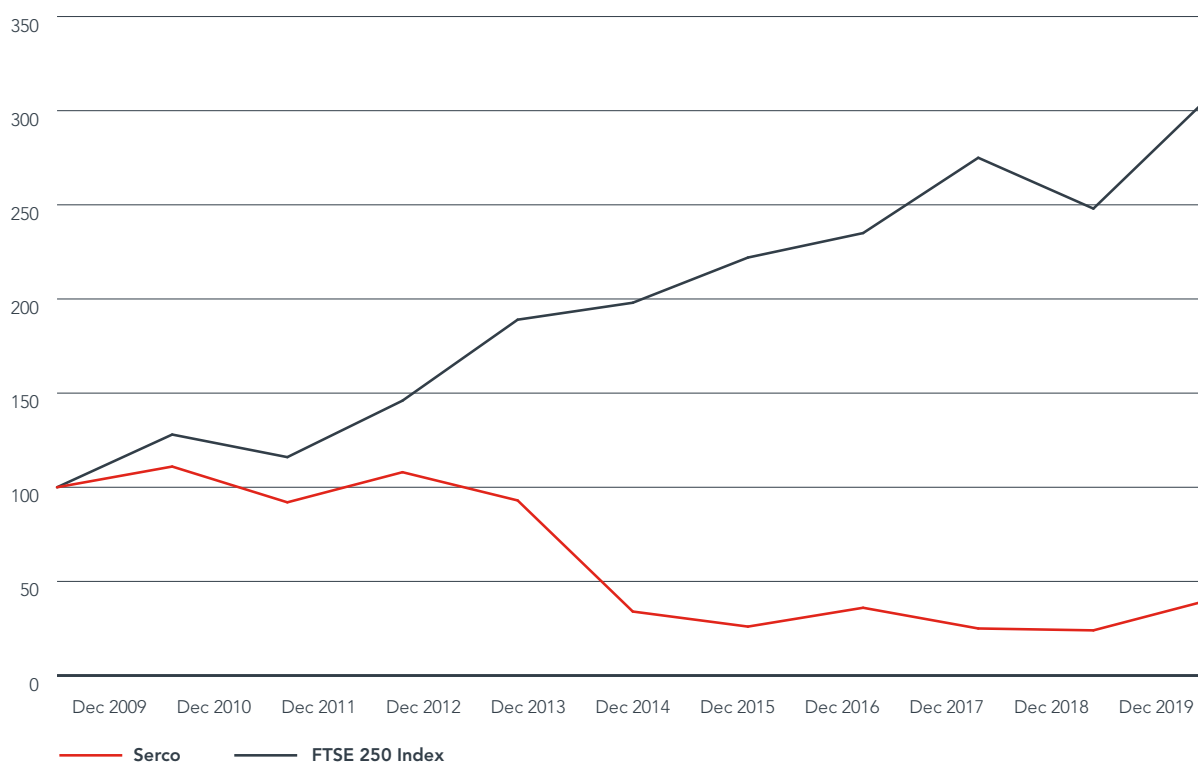
No payments for loss of office or to past Directors were made in the year.

Performance graph and table

This graph shows the value as at 31 December 2019, of a £100 investment in Serco on 31 December 2009 compared with £100 invested in the FTSE 250 index on the same date. It has been assumed that all dividends paid have been reinvested.

The TSR level shown at 31 December each year is the average of the closing daily TSR levels for the 30-day period up to and including that date. The Company chose the FTSE 250 index as the comparator for this graph as Serco has been a constituent of that index throughout the period.

Serco performance graph



CEO's pay in last ten financial years

Year ended 31 December	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
				Christopher Hyman	Ed Casey					
Group CEO	Christopher Hyman	Christopher Hyman	Christopher Hyman	Ed Casey	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames	Rupert Soames
CEO single figure remuneration (£000)	2,647	2,826	2,582	893	1,605	2,255	2,217	3,805	5,176	5,701
Annual bonus outcome (as % of maximum opportunity)	91%	81%	72%	74%	71%	87%	82%	75%	77%	94%
LTI vesting outcome (as % of maximum opportunity)	169%	80%	64%	0%	0%	100%	24%	91%	73%	71%

Remuneration Report continued

Percentage change in CEO's remuneration

The table below shows the percentage change in the salary, benefits and bonus of the CEO compared to that for the average UK employee. The UK employee sub-set of the Company's global employee population has been chosen as the group which provides the most appropriate comparator;

this comprises some 22,000 of the circa 50,000 individuals Serco employs worldwide. Inflation and local pay practices form a key driver in the salary and benefits provided in each location, and as the CEO is based in the UK we have chosen employees within the same country.

	Salary	Benefits ²	Bonus ³
CEO	0%	14%	22%
Average change for all other UK employees	1.55% ¹	18%	5%

Notes:

1. This represents the average pay increase for all UK employees that was applied in the 2019 annual pay review cycle.
2. The nature of benefits provided to the CEO and to employees in 2019 compared to 2018 remains the same.
3. The bonus element is shown for those employees eligible for such payments. The figures shown here relate to a calculation of the bonus earned, but not yet paid, related to performance in 2019 compared to the 2018 bonuses paid in April 2019. The difference in the increase to the CEO and employee bonuses is related to the different performance outcomes at Group, Divisional and Business Unit levels compared to 2018. The CEO's 2019 bonus over 100% of salary is subject to compulsory deferral for three years into shares.

CEO Pay Ratio

The table below shows how pay for the CEO compares to our UK colleagues at the 25th, median and 75th percentiles.

Year 2019	25th percentile	Median pay	75th percentile
Salary ¹	£24,859	£27,026	£32,429
Total pay and benefits ²	£26,066	£30,072	£34,420
Pay Ratio (Option B)	1:219	1:190	1:166

Notes:

1. Includes salary enhancements such as shift allowances, unsociable hours payments and overtime.
2. Includes the value of employer pension contributions made to a defined contribution pension arrangement. Each of these representative colleagues participated in a salary sacrifice pension arrangement.

The Committee believes that the median ratio is consistent with the Company's pay, reward and progression policies for our UK colleagues. As a business Serco employs a very wide range of people with different skills, experiences and capabilities, and our reward aims to reflect these differences and be responsive to the needs of our employees. We apply the same reward principles for all our colleagues, in that reward should be competitive and aligned to the sectors and markets from which we draw our talent. Our remuneration philosophy throughout the organisation is to compensate employees fairly for their contribution to the business while ensuring that we are appropriately managing the cost of our workforce which, as a people business, is our biggest operating cost.

The remuneration of our CEO includes a significant weighting towards variable pay to ensure that he is appropriately incentivised to deliver against our strategic goals. In particular, the 2019 annual bonus and LTI values represent a significant portion of the CEO's 2019 single figure, recognising the contribution he has made to the transformation of Serco. Of our c.22,000 colleagues in the UK, a large number (c.16,000) are frontline operational or administrative staff who are critical to the delivery of the commitments we make under our contracts every day. In line with market practice for such roles, the majority of the workforce are therefore in receipt of fixed pay only (including pension contributions). Given our workforce profile, all three of our CEO pay ratio reference points compare our CEO's pay with front-line operational colleagues. As such, our CEO pay ratio will fluctuate year on year primarily as a result of variable pay outcomes which are used to incentivise our executives and most senior leaders to deliver results for our customers, colleagues and shareholders.

We have used our 2019 Gender Pay data to identify employee representatives at each pay quartile of our UK employee population. Employees were ranked by hourly pay and those full-time colleagues at the quartile points fulfilling common roles within the UK employee population were selected as the representatives for comparison. Given our diverse workforce and large number of UK employees across many contracts and payrolls, this is considered to be the most appropriate method of identifying employees who are representative of our workforce. The single figures for each representative employee (all of whom were full-time) were calculated in respect of the financial year to 31 December 2019. The single figures have been calculated taking into consideration regular salary and allowances (e.g. shift allowances), employer pension contributions, taxable benefits and bonuses (where relevant) following the same approach taken in determining the CEO's single figure. The pay and benefits figures for the employee representatives do not include any amounts in respect of long-term incentives as these are only available to the most senior members of the Group.

Relative importance of spend on pay

The table below details the percentage change in dividends and overall expenditure on pay compared with the previous financial year.

Serco considers overall expenditure on staff pay in the context of the general finances of the Company. This includes the determination of the annual salary increase budget, the annual grant of shares and annual bonus for the business.

	2019 vs 2018	2019	2018
Dividend per share	0%	Nil	Nil
Overall expenditure on wages and salaries	8.6%	£1,562.1m	£1,438.7m

Dividend per share, and overall expenditure on wages and salaries have the same meaning as in the notes to the Company Financial Statements.

Awards made in 2019

Equity settled bonus plan (ESBP) (audited information)

In line with the approved Remuneration Policy, in connection with the compulsory deferral of 2018 bonus in excess of 100% of salary the Executive Directors were granted the following ESBP

Awards in the form of Conditional Share Awards. ESBP Awards granted in 2019 vest on the third anniversary of grant.

Directors	Face value (£) ¹	Grant date	Market price at award (£) ²	Number of shares ³
Rupert Soames	296,863	26 April 2019	1.2420	239,020
Angus Cockburn	85,900	26 April 2019	1.2420	69,162

Notes:

1. Calculated as the value of the Executive Directors' 2018 bonus in excess of 100% of salary.
2. Closing share price on 25 April 2019 (being the last trading day prior to the grant).
3. Calculated using the closing share price on the trading day immediately prior to the grant date.

Pre-vesting malus and post-vesting clawback are applicable to these awards.

Long term incentive plan (LTIP) (audited information)

The former 2009 Performance Share Plan rules expired in 2019. Following approval of new plan rules at the 2019 AGM, Performance Share Plan awards were granted under the Serco Group plc 2019 Long-Term Incentive Plan rules in line with the approved Remuneration Policy. In 2019 the CEO received awards equivalent to 200% of salary, and the CFO received awards equivalent to 175% of salary. All awards were in the form of Conditional Share Awards.

The awards will vest at the end of the performance period, if the Executive Directors are still in employment with Serco and to the extent that the performance conditions have been met as measured over the three-year performance period ending 31 December 2021.

Performance measure	Weighting of measure	Performance target
Aggregate EPS	28.33%	Statutory Earnings Per Share (EPS) before exceptional items (adjusted to reflect tax paid on a cash basis) of 19.69p (threshold, 25% vesting) to 23.89p (maximum, 100% vesting), measured as an aggregate over the three-year performance period. ¹
Relative TSR	28.33%	Total Shareholder Return (TSR) of median (threshold, 25% vesting) to upper quartile (maximum, 100% vesting) when ranked relative to companies in the FTSE 250 (excluding investment trusts), measured over the three-year performance period.
Average ROIC	28.33%	Pre-tax Return on Invested Capital (ROIC) of 15.2% (threshold, 25% vesting) to 18.6% (maximum, 100% vesting), measured as an average over the three-year performance period. ¹
Order Book	7.50%	Book-to-bill ratio of 100% (target, 50% vesting) to 105% (maximum, 100% vesting), measured as an average over the three-year performance period.
Employee Engagement	7.50%	Employee engagement score of 67 (target, 50% vesting) to 70 (maximum, 100% vesting), measured via the Serco Employee Engagement Survey in the final year of the performance period.

Note:

1. These are the adjusted EPS and ROIC targets. As set out in the Chair's Statement at the beginning of this report, following the successful completion of the NSBU acquisition, which was a significant acquisition by the Company, the Committee approved the adjustment to the EPS and ROIC performance targets originally set. This ensured that the targets continued to accurately reflect the performance of the Group, and that they maintain the performance "difficulty" required for vesting as originally intended. The original target ranges were: for EPS, 19.0p (threshold) to 23.2p (max); and for ROIC, 15.6% (threshold) to 19.0% (max).

Remuneration Report continued

The structure for vesting of the EPS, TSR and ROIC conditions is straight-line vesting between threshold and maximum, and no shares vest where performance is below threshold. The Committee views the Order Book and Employee Engagement targets to be strategically critical to the longer-term success of the Company and that there should be no vesting below target performance. Threshold performance therefore delivers a 0% vesting outcome. The vesting level for on-target performance is 50%, with straight-line vesting between target and maximum. This is a more stringent approach than required under the approved Remuneration Policy.

In determining the extent to which these awards will vest the Committee will consider the Group's underlying performance (with input from the Group Audit and Risk Committees as appropriate) and external market reference points to ensure that outcomes are fair and reflect the underlying performance of the Group.

Each element of the LTIP award is subject to a post-vesting holding requirement that takes the total term of the award (i.e. performance period plus holding period) to a minimum of five years. Pre-vesting malus and post-vesting clawback is also applicable to these awards.

Directors	Basis of award (% salary)	Face value (£)	Grant date	Market price at award (p) ¹	Number of shares ²	Percentage vesting at threshold performance ³	Performance period end date
Rupert Soames	200%	1,700,000	6 June 2019	129.50	1,312,741	21.25%	31 December 2021
Angus Cockburn	175%	892,500	6 June 2019	129.50	689,189	21.25%	31 December 2021

Notes:

1. Closing share price on 5 June 2019 (being the last trading day prior to the grant).
2. Calculated using the closing share price on the trading day immediately prior to the grant date.
3. 85% of the awards that are subject to financial performance conditions vest at 25% for threshold performance. 15% of the awards that are subject to strategic performance conditions vest at 0% for threshold performance.

Voting outcomes

At the previous AGMs, votes on remuneration matters were cast as follows:

	Year of AGM	For %	Against %	Number withheld ¹
2018 Annual Report on Remuneration	2019	88.26%	11.74%	19,584
To adopt the rules of the 2019 Long-Term Incentive Plan	2019	92.96%	7.04%	42,511
2017 Remuneration Policy	2018	88.51%	11.49%	61,479
2017 Annual Report on Remuneration	2018	86.95%	13.05%	51,945

Note:

1. A "Vote Withheld" is not a vote in law and is not counted in the calculation of the proportion of votes "For" or "Against" a Resolution.

External appointments

The Board believes that the Group can benefit from its Executive Directors holding appropriate Non-Executive Directorships of companies or independent bodies. Such appointments are subject to the approval of the Board. Fees are retained by the Executive Director concerned.

Rupert Soames was appointed as a Non-Executive Director of DS Smith plc on 1 March 2019, and as Senior Independent Director on 3 September 2019, in respect of which the total fee payable is £70,500 per annum (£60,500 per annum as a Non-Executive Director and £10,000 per annum as Senior Independent Director). Angus Cockburn was Senior Independent Director and Chair of the Audit Committee of Ashtead Group plc throughout the year in respect of which the total fee payable is £90,000 per annum (£60,000 per annum as a Non-Executive Director, £15,000 per annum as Senior Independent Director and £15,000 per annum as Chair of the Audit Committee).

No other fee-paying external positions were held by the Executive Directors during the year ended 31 December 2019.

Directors' shareholding and share interests (audited information)

Current shareholdings are summarised in the table below. Shares are valued for shareholding guideline purposes at the year-end price, which was £1.6190 per share at 31 December 2019 (being the last trading day of the financial year).

Executive Directors

Name	Share ownership requirements (% of salary) ¹	Number of shares owned outright (including connected persons) at 31 December 2019 ²	Value invested ³ (£)	Shares		Share options ⁶		Total share interests at 31 December 2019 ²
				Subject to performance conditions ⁴	Not subject to performance conditions ⁵	Subject to performance conditions ⁷	Exercised during the year ⁸	
Rupert Soames	200%	3,617,163	4,727,762	2,675,085	239,020	3,257,905	1,410,028	9,789,173
Angus Cockburn	150%	1,408,933	1,709,299	1,130,659	69,162	1,676,863	725,749	4,285,617

Notes:

- The CEO, Rupert Soames, and CFO, Angus Cockburn, have both exceeded their shareholding guidelines as well as their contractual investment commitments of investing 200% and 150% of salary, respectively.
- Includes shares owned by connected persons. There were no changes in Directors' interests in the period between 1 January 2020 and the date of this report.
- Based on the share price at the point of acquisition of each tranche of shares held outright at 31 December 2019 by the Executive Director and/or their connected persons.
- Includes awards made to Rupert Soames and Angus Cockburn under the Long-Term Incentive Plan, and previously made under the Deferred Bonus Plan which have not yet vested. All awards are in the form of conditional share awards.
- These are awards made under the Equity-Settled Bonus Plan in connection with the compulsory deferral of bonus into shares. Awards are in the form of conditional share awards.
- All options are in the form of nominal cost options subject to a 2 pence per share exercise price. There are no interests in the form of share options that are not subject to performance conditions, nor are there any share options that are vested but unexercised.
- Includes awards previously made under the Performance Share Plan which have not yet vested. These are all nominal cost options with a 2 pence per share exercise price.
- Rupert Soames and Angus Cockburn exercised vested options in respect of their 2016 PSP awards that were subject to EPS, TSR and ROIC performance conditions.

Non-Executive Directors

Non-Executive Directors do not participate in any share-based incentives and do not hold any interests in shares other than shares owned outright.

Name	Number of shares owned outright (including connected persons) at 31 December 2019 ^{1,2}
Sir Roy Gardner	200,000
Kirsty Bashforth	10,000
Eric Born	30,000
Ian El-Mokadem	50,000
Rachel Lomax	40,000
Lynne Peacock	15,000
John Rishton	43,086

Notes:

- Includes shares owned by connected persons. There were no changes in Directors' interests in the period between 1 January 2020 and the date of this report.
- Non-Executive Directors do not have shareholding guidelines and there are no interests in shares held by Non-Executive Directors where the individual does not own those shares outright.

Other shareholding information

Shareholder dilution

Awards granted under the Company share plans are met either by the issue of new shares or by shares held in trust when awards vest. The Committee monitors the number of shares issued under its various share plans and their impact on dilution limits. The relevant dilution limits established by the Investment Association (formerly the ABI) in respect of all share plans is 10% in any rolling ten-year period and in respect of discretionary share plans is 5% in any rolling ten-year period.

Based on the Company's issued share capital at 31 December 2019, our dilution level was within these limits.

The Group has an employee share ownership trust which is administered by an independent trustee and which holds ordinary shares in the Company to meet various obligations under the share plans.

The Trust held 3,527,740 and 4,805,612 ordinary shares at 1 January 2019 and 31 December 2019 respectively.

Remuneration Report continued

Summary of the approved Remuneration Policy for Executive Directors'

The 2018 Directors' Remuneration Policy (the Policy) took effect following shareholder approval at the 2018 Annual General Meeting (held on 10 May 2018). The full Policy may be found on the Company's website. A summary of the approved policy for Executive Directors' is provided below. This summary does not replace or override the full approved policy which is available on our website within the 2017 Annual Report and Accounts.

Serco's Remuneration Policy supports the achievement of the Group's long-term strategic objectives. Serco's approach to executive remuneration is designed to:

- support Serco's long-term future growth, strategy and values;
- align the financial interests of executives and shareholders;
- provide market-competitive reward opportunities for performance in line with expectations and deliver significant financial rewards for sustained out-performance;
- enable Serco to recruit and retain the best executives with the required skills and experience in all our chosen markets; and
- be based on a clear rationale which participants, shareholders and other stakeholders are able to understand and support.

We approach Executive Directors' remuneration on a total reward basis to provide the Remuneration Committee with a holistic view of total remuneration rather than just the competitiveness of the individual elements. Analysis is conducted by looking at each of the different elements of remuneration (including salary, annual bonus, performance share plan and pension) in this context. This ensures that in applying the Remuneration Policy executive pay is sufficient to achieve the goals of the Remuneration Policy without paying more than is necessary. The balance of fixed to variable pay also ensures that significant reward is only delivered for exceptional performance.

This remuneration framework is echoed throughout the organisation with the approach to pay for the wider workforce reflecting these core principles.

How the element supports our strategic objectives	Operation	Opportunity	Performance framework
<p>Base salary</p> <p>To recognise an individual's experience, responsibility and performance of the role, and by providing the basis for a competitive remuneration package; to help recruit and retain executives of the necessary calibre to execute Serco's strategic objectives.</p>	<p>Pay levels are designed to attract and retain experienced, skilled executives reflecting the skills and role of the individuals.</p> <p>Base salaries are set by reference to:</p> <ul style="list-style-type: none"> • the relevant experience and time in role of the individual; • individual performance; • compensation of similarly situated executives of companies in an appropriate peer group; and • the wider economic environment. <p>In some circumstances an executive may start on a lower salary than would be competitive in the market, with a phased increase applying depending on performance in role and individual ability.</p> <p>Salaries are normally reviewed annually and any changes are usually effective from 1 April. Salary reviews take account of the individual's performance and contribution to the Company during the year.</p>	<p>Whilst there is no prescribed, formulaic maximum, over the policy period, base salaries for Executive Directors will be set at an appropriate level within the peer group and will normally increase at no more than the greater of inflation and salary increases made to the general workforce in the jurisdiction the Executive Director is based in.</p> <p>Higher increases may be made in exceptional circumstances. Such cases would include where there has been a significant change in role size or complexity which has resulted in the salary falling below a market competitive level given the enhanced responsibilities of the role.</p>	<p>Review takes account of individual performance and contribution to the Company during the year.</p>

How the element supports our strategic objectives	Operation	Opportunity	Performance framework
<p>Benefits</p> <p>To provide a competitive level of benefits.</p>	<p>A range of benefits may be provided to Executive Directors.</p> <p>These include, but are not limited to, company car or car allowance, private medical insurance, permanent healthcare insurance, life cover, annual allowance for independent financial advice, and voluntary health checks every two years.</p> <p>Relocation benefits will be provided in a manner that reflects individual circumstances and Serco's relocation benefits policy. For example, relocation benefits could include temporary accommodation for the executive and dependents, education costs for dependents and tax equalisation.</p> <p>Benefits are reviewed annually against market practice and are designed to be competitive.</p>	<p>The maximum opportunity for benefits is defined by the nature of the benefits and the cost of providing them. As the cost of providing such benefits varies based on market rates and other factors, there is no formal maximum monetary value.</p>	<p>None</p>

Remuneration Report continued

How the element supports our strategic objectives	Operation	Opportunity	Performance framework
<p>Annual bonus</p> <p>To incentivise executives to achieve specific, predetermined goals that are aligned to the business strategy during a one-year period.</p> <p>Compulsory deferral into shares increases alignment of the short-term incentive with shareholders.</p> <p>Reward ongoing stewardship and contribution to core values.</p>	<p>The Committee sets objectives and their weightings at the start of each performance year. The annual performance measures and objectives are determined with reference to the Group's overall strategy and annual business plan and priorities for the year. At the end of the performance year the bonus result is determined by the Committee based on performance against the objectives and targets set.</p> <p>Annual bonuses are paid after the end of the financial year to which they relate. There is compulsory deferral into shares vesting after three years of any bonus earned over 100% of salary. The Committee has discretion to permit a dividend equivalent to accrue during the vesting period. Dividend equivalents are delivered to participants in the form of additional shares or cash to the extent that the award vests.</p> <p>Awards made to Executive Directors are subject to malus and clawback provisions.</p>	<p>Maximum bonus opportunity is 175% of salary for CEO and 155% of salary for other Directors. This represents the maximum bonus payable for exceptional/ "stretch" performance.</p>	<p>Performance is assessed annually.</p> <p>Both financial and non-financial measures are used, with a weighting of no less than 70% financial. Financial measures are based on the Company's Key Performance Indicators (KPIs) for the year such as Trade Profit, Cash Flow and Revenue and take into consideration analyst consensus and the Company's forecasts. Non-financial measures are based on personal performance against key strategic objectives for that year.</p> <p>Awards for on-target performance are 50% of the maximum opportunity. At minimum (threshold) performance the award that may be received is 0% of the maximum opportunity.</p> <p>All bonus payments are ultimately at the discretion of the Committee, taking into consideration the Director's personal contribution to business performance over the relevant year and leadership behaviours demonstrated in making that contribution.</p> <p>Performance conditions do not apply to the deferred element.</p>

How the element supports our strategic objectives	Operation	Opportunity	Performance framework
<p>Performance Share Plan (PSP)</p> <p>Recognises achievement against the longer-term objectives linked to the Group's strategy and aligns incentives with shareholder value creation.</p>	<p>Awards under the PSP are usually made in the form of nominal cost options or conditional share awards, but may also take the form of nil-cost options or market value share options.</p> <p>Awards are normally granted on an annual basis. However, the Committee will consider awards under the PSP twice a year.</p> <p>Awards will be subject to performance conditions.</p> <p>Awards are typically settled in ordinary shares however, at the discretion of the Board, awards may be converted to a cash equivalent based on the value of the shares at the vesting date (in cases where due to local law it is not possible to deliver shares), or subject to net settlement.</p> <p>The Committee has discretion to permit a dividend equivalent to accrue during the vesting period. Dividend equivalents are delivered to participants in the form of additional shares or cash to the extent that the award vests.</p> <p>Shares are subject to a two-year post vesting holding period. During this time the shares must be retained but are not subject to forfeiture provisions. Shares may be sold in order to satisfy tax or other liabilities as a result of the vesting of the award.</p> <p>Awards made to Executive Directors are subject to malus and clawback provisions.</p>	<p>Maximum annual award of up to 200% of base salary for the CEO and 175% for other Directors.</p>	<p>Performance measures and weightings will be set by the Committee at the start of the three-year performance period on the basis of the Group's strategic plan. At least 75% of the vesting of the LTIP is dependent on two or more financial performance conditions chosen from:</p> <ul style="list-style-type: none"> • EPS • TSR • ROIC <p>The Remuneration Committee has discretion to introduce additional financial measures aligned to the Group's strategy.</p> <p>In addition, up to 25% of the LTIP vesting may be based on the achievement of strategic measures. The Remuneration Committee has discretion to restrict the vesting against the non-financial element if, on assessment of the Company's performance as a whole including the financial performance, the formulaic outcome of the non-financial measures is not reflective of this.</p> <p>25% of the award vests for threshold performance rising on a straight-line basis to full vesting for maximum performance.</p> <p>The Committee (with input from the Audit and Group Risk Committees as appropriate) considers Serco's underlying performance and external market reference points as well as performance against the specific targets set in determining the overall outcome of the PSP.</p>

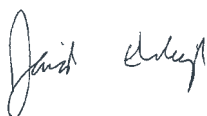
Remuneration Report continued

How the element supports our strategic objectives	Operation	Opportunity	Performance framework
<p>Pension¹</p> <p>To provide pension-related benefits to encourage executives to build savings for retirement.</p>	<p>Executive Directors may participate in the Group defined contribution pension plan (or overseas Serco pension plan as appropriate).</p> <p>Employer contributions are reviewed against local market practices annually.</p> <p>Executive Directors may choose to receive some or all of their employer pension contribution in cash to invest as they see fit.</p>	<p>Employer pension contributions (or the equivalent), and/or combined with a cash supplement, of up to 30% of base salary.</p> <p>The maximum employer pension contribution (or the equivalent), and/or combined with a cash supplement, for new Executive Directors will be up to 20% of base salary.</p>	None
<p>Shareholding guidelines</p> <p>To support long-term commitment to the Company and the alignment of employee interests with those of shareholders.</p>	<p>The Committee reviews the shareholding guideline with the Policy review to ensure the guidelines remain in line with market and best practice.</p> <p>Unvested awards that are subject to performance conditions are not taken into account in determining an Executive Director's shareholding for these purposes. Share price is measured as at end of the relevant financial year.</p> <p>Executives are required to retain in shares 50% of the net value of any performance shares vesting or options exercised until they satisfy the shareholding guideline.</p>	<p>The shareholding guidelines are 200% of salary for the CEO, and 150% of salary for other Executive Directors.</p> <p>The Committee has the discretion to increase the shareholding guideline of the Executive Directors.</p>	None

Note:

- Note that although the Policy with regards to the Pension opportunity remains the same, the implementation of the approved Policy is such that the opportunity for new Executive Directors will be aligned to that available to the UK workforce, and the opportunity for the incumbent Executive Directors will be reduced from 30% to 20% of salary with effect from 1 April 2020, and further reduced from 1 January 2023 to broadly align with the workforce level.

Approved by the Board of Directors and signed on its behalf by:



David Eveleigh
Group General Counsel and Company Secretary
25 February 2020

Directors' Report

Annual Report and Accounts

The Directors present the Annual Report and Accounts of the Group for the year ended 31 December 2019. Comparative figures used in this report are for the year ended 31 December 2018 unless otherwise stated. The Corporate Governance Report, set out on pages 101 to 123, forms part of the Directors' Report.

The Chairman's Statement on pages 6 to 8 and the Chief Executive's Review and Divisional Reviews on pages 22 to 41 report on the activities during the year and likely future developments. The information in these reports, which is required to fulfil the requirements of the Business Review, is incorporated in this Directors' Report by reference.

Articles of Association

The rules relating to the appointment and replacement of Directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force from time to time.

Share capital

The issued share capital of the Company, together with the details of shares issued during the year, is shown in note 32 to the Consolidated Financial Statements.

The powers of the Directors to issue or buy back shares are restricted to those approved at the Company's Annual General Meeting ("AGM").

At the Annual General Meeting in May 2019, pursuant to Section 570 of the Companies Act 2006, shareholders approved the issue of shares for cash up to 5% of the existing issued share capital and an additional 5% (only to be used in connection with an acquisition or specified capital investment) in each case without the application of pre-emption rights. The authority will expire at the conclusion of the 2020 AGM, at which a resolution will be proposed for its renewal, or, if earlier, 30 June 2020.

Rights attaching to shares

Each ordinary share of the Company carries one vote at general meetings of the Company. There are no restrictions on the transfer of ordinary shares in the capital of the Company other than certain restrictions which may from time to time be imposed by law.

The Company is not aware of any agreement between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Authority for the purchase of shares

At the Annual General Meeting in May 2019, the Company was granted authority by shareholders to purchase up to 111,216,423 ordinary shares (10% of the Company's issued ordinary share capital as at 29 March 2019). This authority will expire at the conclusion of the 2020 AGM, at which a resolution will be proposed for its renewal, or, if earlier, 30 June 2020.

Dividends

The Directors recommend that a final dividend of 1.0p be paid in respect of the year ended 31 December 2019 (2018: nil). No interim dividend was paid during the year (2018: nil).

Subject to approval by shareholders at the Annual General Meeting, the final dividend will be paid on 5 June 2020 to shareholders on the register at the close of business on 15 May 2020.

Directors

Details of the current members of the Board, all of whom served throughout the year, are set out on pages 102 and 103.

In accordance with the UK Corporate Governance Code, all Directors will stand for re-election at the AGM.

Directors' interests

With the exception of the Executive Directors' service contracts and the Non-Executive Directors' letters of appointment, there are no contracts in which any Director has an interest.

Details of the Directors' interests in the ordinary shares and options over the ordinary shares of the Company as at 31 December 2019 are set out in the Remuneration Report on pages 124 to 148.

Between 1 January 2020 and the date of this report there were no changes in the Directors' interests in ordinary shares and options over ordinary shares.

Directors' indemnities

The Company maintains Directors' and Officers' liability insurance. As permitted under the Articles of Association and in accordance with best practice, deeds of indemnity have been executed indemnifying each of the Directors and the Company Secretary of the Company in respect of their positions as officers of the Company as a supplement to this insurance cover. The indemnities, which constitute a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006, remain in force for all current Directors and the Company Secretary of the Company.

Branch offices

In certain jurisdictions, the Group operates through a branch of one of its subsidiary companies. These include the following countries: Abu Dhabi, Afghanistan, Bahrain, Belgium, Dubai, France, Iraq, Italy, Luxembourg, Netherlands, Qatar, Sharjah and Singapore.

Significant agreements that take effect, alter or terminate upon a change of control

Given the business-to-government nature of many of the services provided by the Company and its subsidiaries, many agreements contain provisions entitling the other parties to terminate them in the event of a change of control, including a takeover of the Company. The following agreements are those individual agreements which the Company considers to be significant to the Group as a whole that contain provisions giving the other party a specific right to terminate if the Company is subject to a change of control:

Directors' Report continued

Material contracts

- **Clarence Correctional Centre:** On 14 June 2017, NorthernPathways Project Trust (of which Serco Australia Pty Limited is a member) entered into a project deed with the Australian State of New South Wales to design, construct and operate a new build prison named the New Grafton Correctional Centre, the name of which has subsequently been changed to Clarence Correctional Centre. The prison is expected to become operational in 2020. Also, on 14 June 2017, Serco Australia Pty Limited entered into an operator sub-contract with NorthernPathways. The operator sub-contract will expire 20 years from the date of acceptance of the completed Clarence Correctional Centre by the State. Both the project deed and the operator subcontract contain change of control provisions that provide that any change of control to an unrelated third-party that has not been approved by the State of New South Wales would be a major default. A major default under either the project deed or operator sub-contract, if not cured, could result in a termination of that contract.
- **Australian Immigration Services:** On 11 December 2014, Serco Australia Pty Limited entered into a contract with the Commonwealth of Australia (acting through the Department of Immigration and Border Protection) for the provision of detention services at all onshore immigration facilities in Australia. The contract has an initial five-year term, with two two-year extension options. The first option was exercised by the client in late 2019, so the current term will run until December 2021. In the event of a change in control or ownership of Serco Australia Pty Limited, which in the reasonable opinion of the Commonwealth adversely affects the Company's ability to perform the services, the contract may be terminated by the Commonwealth.
- **Subcontract relating to the provision of ADF Health Services by Bupa Health Services Pty (Bupa) to the Commonwealth of Australia, Department of Defence (NGHS Contract):** On 4 February 2019 Serco Australia Pty Limited entered into a Subcontract with Bupa for the provision of national garrison health services to the Commonwealth of Australia, Department of Defence. The contract had a services commencement date of 1 July 2019, with an initial 6-year term. The NGHS Contract includes a change of control provision that provides that a change of control of the ultimate holding company, Serco Group plc, requires Bupa's prior written consent. If the change is as a result of market transactions, then Bupa is to be notified as soon as possible and consent sought after the event. On request, details of the change and its impact on Serco Australia Pty Limited's obligations under the NGHS Contract are to be provided to Bupa. Bupa may provide consent to the change subject to conditions. If Bupa does not consent to the change of control, Bupa may terminate the NGHS Contract for default.
- **Special Security Agreement:** In order to bid and perform on certain classified contracts involving US national security, Serco Inc. was required to mitigate its foreign ownership through a Special Security Agreement (SSA) between the US Government, Serco Inc. and Serco Group plc. The effective date of the SSA is 7 October 2019. The U.S. Department of Defense may terminate Serco's SSA in the event of the sale of the Corporation to a company or person not under Foreign Ownership, Control or Influence (FOCI).
- **CMS Eligibility Support Services:** In June 2018, Serco Inc. was awarded a follow-on contract with the United States of America (acting through the Centers for Medicare and Medicaid Services (CMS)) for the provision of support for the Exchanges implemented to provide affordable health insurance and insurance affordability programmes. The contract had an initial base term of one year, with four options of one year each. In the event of a change in control or ownership of Serco Inc., which in the reasonable opinion of the U.S. Government adversely affects the Company's ability to perform the services, the contract may be terminated by the U.S. Government.
- **AWE:** Serco Holdings Limited is a shareholder in AWE Management Limited ("the AWE JV"). Serco Holdings Limited's joint venture partners and the other shareholders in the AWE JV are UK subsidiary companies of Lockheed Martin Corporation and Jacobs Engineering Group. The AWE JV oversees the design, development, maintenance and manufacture of warheads for the UK's strategic nuclear deterrent. This work is carried out by the AWE JV under a management and operation contract with the Secretary of State for Defence ("the AWE Contract"). The AWE Contract was entered into on 1 December 1999 and has a 25-year term. Under the terms of the AWE Contract, any change in shareholding or the identity of a shareholder in the AWE JV requires the consent of the Secretary of State for Defence. In the event that there is a change of control of Serco Holdings Limited, it is required to transfer its entire shareholding in the AWE JV to Serco Group plc or another wholly owned subsidiary of Serco Group plc prior to such change of control. In the event that there is a change of control of Serco Holdings Limited without its entire shareholding in the AWE JV first being transferred to another member of the Serco Group or if there is a change of control of the Serco Group then the other shareholders in the AWE JV are entitled (subject to the approval of the Secretary of State and applicable regulatory approvals) to purchase the AWE JV shares and loans held by Serco Holdings Limited and any other member of the Serco Group.
- **Asylum Accommodation and Support Services Contract ("AASC"):** On 8 January 2019 Serco Limited entered into contracts with the Secretary of State for the Home Department (acting through its UK Home Office Visas and Immigration department) for two regions of the new AASC, being the North West of England and the Midlands & East of England. Under AASC, Serco is responsible for the provision of properties for initial and dispersed accommodation requirements, for transportation to and from properties, and for a range of other services to support the welfare of asylum seekers. In the two regions for which Serco was selected, there are currently approximately 20,700 asylum seekers living in more than 5,500 properties. The AASC Contract became operational on 1 September 2019. The contract is for a 10 year term. In the event of a change of control or ownership of Serco Limited, which in the reasonable opinion of the Authority adversely affects Serco's ability to perform the services, the contract may be terminated by the Authority.

Material contracts continued

- **Agreement relating to the provision of Prisoner Escort and Custodial Services (Generation 4) ("PECS IV"):** On 30 October 2019 Serco Limited entered into a ten year contract with the Secretary of State for Justice to provide prisoner escort services to the South of England. Serco will be responsible for provision of prisoner escort and custody services, including the escort and custody of young people in the criminal justice system. The PECS IV Contract becomes operational on 28 August 2020. In the event of a change of control or ownership of Serco, which the Authority reasonably believes will negatively affect either Serco's ability to perform the services or the Authority's reputation, the contract may be terminated by the Authority.

Financing facilities

- **Revolving credit facility:** the Company has a £250,000,000 revolving credit facility dated 3 December 2018 with a syndicate of banks. The facility provides funds for general corporate and working capital purposes and bonds to support the Group's business needs. The facility agreement provides that, in the event of a change of control of the Company, each lender may, within a certain period, call for the prepayment of the amounts owed to it and cancel its commitments under the facility.
- **US notes:** the Company has notes outstanding under three US Private Placement Note Purchase Agreements (the 'USPP Agreements') dated 9 May 2011, 20 October 2011 and 13 May 2013 respectively. The total amount of the notes outstanding under the three USPP Agreements was \$281,339,457 at 31 December 2019, and their maturity is 14 May 2020 and 14 May 2024. Under the terms of the USPP Agreements, if a change of control of the Company occurs, it is required to offer to prepay the entire principal amount of the notes together with interest to the prepayment date but without payment of any make-whole amount.
- **Term loan facility:** the Company has £45,000,000 term loan dated 23 May 2019. The facility agreement provides that, in the event of a change of control of the Company, each lender may, within a certain period, call for the prepayment of the amounts owed to it.

Share plans

- The Company's share plans contain provisions in relation to a change of control. Outstanding options and awards may vest and become exercisable on a change of control of the Company, in accordance with the rules of the plans.

Annual General Meeting

The Annual General Meeting of the Company will be held at Clifford Chance LLP, 10 Upper Bank Street, Canary Wharf, London E14 5JJ on Thursday 14 May 2020 at 11.00am.

Financial risk policies

A summary of the Group's treasury policies and objectives relating to financial risk management, including exposure to associated risks, is on pages 208 to 214.

Employment policies

The Board is committed to maintaining a working environment where staff are individually valued and recognised. Group companies and Divisions operate within a framework of human resources policies, practices and regulations appropriate to their own market sector and country of operation, whilst subject to Group-wide policies and principles.

Diversity

The Group is committed to ensuring equal opportunity, honouring the rights of the individual, and fostering partnership and trust in every working relationship. Policies and procedures for recruitment, training and career development promote diversity, respect for human rights, and equality of opportunity regardless of gender, sexual orientation, age, marital status, disability, race, religion or other beliefs and ethnic or national origin.

The Group promotes diversity so that all employees are able to be successful regardless of their background. The Group gives full consideration to applications for employment, career development and promotion received from the disabled, and offers employment when suitable opportunities arise. If employees become disabled during their service with the Group, arrangements are made wherever practicable to continue their employment and training.

The Group recognises the importance of protecting human rights. We seek to respect and uphold the human rights of individuals in all aspects of our operations wherever we operate. Our Human Rights Group Standard demonstrates this commitment and the significance of human rights for a diverse global organisation. It also sets out expectations for individual and corporate behaviour across our business in regards to human rights. We use International Human Rights Standards such as the United Nations Guiding Principles on Business and Human Rights (2011) (UN Guiding Principles) as frameworks to assist our decision-making and constructive engagement; to identify, assess, and manage adverse human rights impacts; and to integrate and act on findings, track responses, monitor effectiveness and communicate how impacts are addressed.

Employee engagement

The Group is proud of its record of managing employee relations and believes that the structure of individual and collective consultation and negotiation is best developed at a local level. Over the years, the Group has demonstrated that working with trade unions and creating effective partnerships allows improvements to be delivered in business performance as well as in employment terms and conditions. Where employees choose not to belong to a trade union, employee communication forums such as works councils exist to ensure involvement of staff within the business.

The Group has been proactive in providing employees with information on matters of concern to them as employees and in taking their views on board. Effective leadership and line management are our principle means of engagement and employee feedback is invited through Viewpoint, our employee engagement survey; Speak Up, our global ethics helpline and investigation process; Yammer, our internal social media platform; and Colleague ConneXions, our approach to amplifying employee voice and strengthening dialogue between the Board and employees.

Directors' Report continued

These mechanisms ensure employees' views are considered in decision-making and that they have a common awareness of Group strategy, matters of concern to them and the financial and economic factors affecting the performance of the Company.

Participation by staff in the success of the Group is encouraged by the availability of long-term incentive arrangements for senior management, which effectively aligns their interests with those of shareholders by requiring that Company-level financial performance criteria are achieved as a condition of vesting.

Corporate responsibility

As a provider of public services, the Group is committed to operating with a public service ethos and recognises its responsibilities. The Company's approach to corporate responsibility is structured around our key stakeholders, focusing on how we work to add sustainable value whilst delivering their requirements with accountability and transparency. Our corporate responsibility framework defines our principal areas of responsibility and helps to guide practice and behaviour whilst facilitating measurement of performance. More information on Corporate Responsibility, including greenhouse gas emission reporting, can be found in the Strategic Report on pages 76 to 95.

Political donations

During the year neither the Company nor the Group made political donations and they intend to continue with this policy. However, it is possible that certain routine activities may unintentionally fall within the broad scope of the Companies Act 2006 provisions relating to political donations and expenditure. As in previous years, a resolution will therefore be proposed that the authority granted at the AGM in May 2019 regarding political donations be renewed. Details will be included in the Notice of AGM.

Within the US business there exists a Political Action Committee (PAC), which is funded entirely by employees. The Serco PAC and its contributions are administered in strict accordance with regulatory requirements. Employee contributions are entirely voluntary and no pressure is placed on employees to participate. Under US law, an employee-funded PAC must bear the name of the employing company.

Financial statements

At the date of this report, as far as each Director is aware, there is no relevant audit information of which the Group's Auditor is unaware. Each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's Auditor is aware of that information.

Auditor

The Audit Committee has considered the reappointment of KPMG LLP as auditor and recommended it to the Board. The Board recommends the reappointment of KPMG LLP to shareholders at the AGM to be held on Thursday 14 May 2020.

Going concern

The Directors have a reasonable expectation that the Company and the Group will be able to operate within the level of available facilities and cash for the foreseeable future and accordingly believe that it is appropriate to prepare the financial statements on a going concern basis.

In assessing the basis of preparation of the financial statements for the year ended 31 December 2019, the Directors have considered the principles of the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014; particularly in assessing the applicability of the going concern basis, the review period and disclosures. The Group's current principal debt facilities at the year end comprised a £250m revolving credit facility, £213 million of US private placement notes and a £45m term loan. As at 31 December 2019, the Group had £508m of committed credit facilities and committed headroom of £286 million.

The Directors have undertaken a rigorous assessment of going concern and liquidity taking into account financial forecasts which indicate sufficient capacity in our financing facilities and associated covenants to support the Group. In order to satisfy themselves that the Company has adequate resources for the future, the Directors have reviewed the Group's existing debt levels, the committed funding and liquidity positions under our debt covenants, and our ability to generate cash from trading activities and working capital requirements.

In undertaking this review the Directors have considered the business plans which provide financial projections for the foreseeable future. For the purposes of this review, we consider that to be the period ending 30 June 2021. The Directors have also reviewed the principal risks considered on pages 62 to 73 and taken account of the results of sensitivity testing.

Interests in voting rights

At 31 December 2019, the Company had been notified under Rule 5 of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority ('Rule 5') of the following interests in voting rights over the issued share capital of the Company:

Notifying person	Number of shares at date of notification	% held at date of notification	Nature of holding
BlackRock Inc	91,121,219	7.45	Indirect
	923,226	0.07	Securities Lending
	35,553,935	2.90	Contract for difference
	127,598,380	10.42	Total
FIL Limited	73,169,712	6.66	Indirect
	156,204	0.01	Stock Loan
	73,325,916	6.67	Total
RWC Asset Management LLP	61,187,686	5.00	Indirect
Marathon Asset Management LLP	58,353,594	5.31	Indirect
Majedie Asset Management Limited	55,965,452	5.09	Direct

Notes:

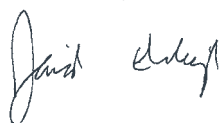
- The above interests may have changed since the date of notification to an interest not requiring further notification under Rule 5.
- On 6 February 2020, BlackRock Inc. notified the Company that its interest in voting rights had increased to 11.20%.

Index of Directors' Report disclosures

The information required to be disclosed in the Directors' Report can be found in this Annual Report on the pages listed below. Pursuant to Listing Rule 9.8.4C, the information required to be disclosed in the Annual Report under Listing Rule 9.8.4R is marked with an asterisk (*).

Amendment of the Articles	Page 149	Independent Auditors' Report	Pages 156 to 166
Appointment and replacement of Directors	Page 149	Long-term incentive plans*	Pages 137 to 142
Board of Directors	Pages 102 and 103	Political donations	Page 152
Change of control	Pages 149 to 151	Powers for the Company to issue or buy back its shares	Page 149
Community	Pages 83 and 100	Powers of the Directors	Page 122
Corporate responsibility	Pages 76 to 95	Restrictions on transfer of securities	Page 149
Directors' insurance and indemnities	Page 149	Rights attaching to shares	Page 149
Directors' inductions and training	Page 108	Risk management and internal control	Pages 60 to 73 and 111
Directors' responsibilities statement	Page 154	Share capital	Page 149
Disclosure of information to Auditor	Page 165	Significant agreements	Pages 149 to 151
Diversity	Page 81 and 119	Significant related party agreements*	Pages 226 and 227
Dividends	Pages 8, 27, 53 and 149	Significant shareholders	Page 153
Employee involvement	Pages 81, 104 and 151	Statement of corporate governance	Pages 122 and 123
Employees with disabilities	Page 151	Strategic Report	Pages 3 to 100
Financial risk management	Pages 208 to 214	Viability Statement	Pages 74 and 75
Future developments of the business	Pages 12 to 21	Voting rights	Page 149
Going concern	Pages 152 and 172		
Greenhouse gas emissions	Page 94		

Approved by the Board of Directors and signed on its behalf by:



David Eveleigh

Group General Counsel and Company Secretary
25 February 2020

Directors' Report continued

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law, and have elected to prepare the Company financial statements in accordance with UK accounting standards, including FRS 101, Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period.

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union;
- for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements;
- assess the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal controls as they determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.


Responsibility statement of the Directors in respect of the Annual Report and Accounts

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board:



Rupert Soames
Group Chief Executive
25 February 2020

Angus Cockburn
Group Chief Financial Officer
25 February 2020

Financial Statements

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Independent Auditor's Report

to the members of Serco Group plc

Our opinion is unmodified

We have audited the financial statements of Serco Group plc ("the Company") for the year ended 31 December 2019 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and parent Company Statement of Changes in Equity, the Consolidated and parent Company Balance Sheet, the Consolidated Cash Flow Statement, and the related notes, including the accounting policies in notes 2 and 39.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 27 May 2016. The period of total uninterrupted engagement is for the four financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Key audit matters including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members as a body may better understand the process by which we arrived at our audit opinion.

These matters were addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The impact of uncertainties due to Britain exiting the European Union on our audit

Assessment of risk vs. prior year: Unchanged Refer to page 62 (principal risks)

The risk

Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in *Recoverability of group goodwill and of parent's investment in subsidiaries* below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.

Our response

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.
- **Sensitivity analysis:** When addressing *Recoverability of group goodwill and of parent's investment in subsidiaries* and other areas that depend on forecasts, we compared the directors' sensitivity analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.
- **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on *Recoverability of group goodwill and of parent's investment in subsidiaries* we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Our findings

As reported under *Recoverability of group goodwill and of parent's investment in subsidiaries*, *Valuation of acquired intangibles*, we found the resulting estimates and related disclosures of the carrying value of goodwill and disclosures in relation to going concern to be balanced (2018: balanced). However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group and this is particularly the case in relation to Brexit.

Independent Auditor's Report continued

to the members of Serco Group plc

Revenue and margin recognition

Revenue **£3,248.4m** (2018: £2,836.8m), operating profit **£102.5m** (2018: £80.5m) and Onerous Contract Provisions of **£16.5m** (2018: £82.1m)

Assessment of risk vs. prior year: Unchanged

Refer to page 114 (Audit Committee Report), pages 174 to 175 and 181 (accounting policy), pages 182 to 185 (key judgements), pages 203 to 204 (contract assets, trade and other receivables note in the financial statements) and pages 207 to 208 (provisions note in the financial statements)

The risk

Accounting application

Revenue is the most material account in the financial statements and is considered to be a main driver of results, and as such had the greatest effect on our allocation of resources in planning and completing the audit.

In addition, the contractual arrangements that underpin the measurement and recognition of revenue by the Group can be complex, with judgements involved in the assessment of current and estimation of future financial performance of those contracts.

Our key areas of focus have been:

- Interpretations of terms and conditions in relation to the required service obligations in accordance with contractual arrangements;
- The identification of performance obligations within contracts and the allocation of revenue and costs to performance obligations where multiple deliverables exist;
- Assessment of the stage of completion by reference to the estimate of cost to complete, where the input method of accounting is used to determine percentage completion;
- Consideration of the Group's performance against contractual obligations and the impact on revenue (including variable revenue) and costs of delivery; and
- The recognition and recoverability assessments of contract related assets, including those recognised as direct incremental costs prior to service commencement, are reliant on the estimation of future profitability of the contract.

Subjective estimate

Where an onerous contract provision is required, judgement is required in assessing the level of provision, including estimated cost to complete taking into account contractual obligations to the end of the contract, extension periods and customer negotiations.

The effect of these matters is that, as part of our risk assessment, we determined that the assessment of onerous contract provisions has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

Our response

Our audit procedures included:

Contracts were selected for substantive audit procedures based on qualitative factors, such as commercial complexity, and quantitative factors, such as financial significance and profitability that we considered to be indicative of risk. Our audit testing for the contracts selected included the following:

- **Assessing application:** We inspected customer contracts to assess the method of revenue recognition to determine that it is in accordance with IFRS 15, including the appropriate recognition of revenue as the performance obligation is satisfied on service contracts.
- **Accounting analysis:** We inspected and challenged accounting papers prepared by the Group to understand the support and assess the position provided in respect of key contract judgements and onerous contract provisions.
- **Tests of details:** We inspected customer contracts for the sample which we selected for testing and where applicable, obtained evidence of correspondence with customers and third parties, in instances where contractual variations and claims have arisen, to inform our assessment of the revenue (including variable revenue) and costs recorded up to the balance sheet date.
- **Test of details:** We assessed a sample of unbilled revenue against documents such as post year end invoices or purchase orders, or customer agreements for the work performed.
- **Site visits and enquiry:** We met with contract management and Business Unit management teams responsible for the contracts we selected for testing as well as attending a sample of monthly Divisional and Business Unit Performance Reviews used to assess business performance in order to inform our assessment of operational and financial performance of the contracts. We also visited a number of key contract locations to observe the contract operations and meet with contract delivery teams to further assess the operational performance. For onerous and potentially onerous contracts identified through application of quantitative or qualitative selection criteria, our procedures also included:
- **Benchmarking assumptions:** We compared contract level forecast revenues and costs to the Group's annual budgets and longer-term forecasts approved by the directors. We challenged key assumptions made by the Group in preparing these forecasts, including those in relation to revenue growth and cost reductions, checking to external evidence where possible and assessing against business plans.
- **Our sector experience:** We assessed the contractual terms and conditions to identify the key obligations of the contract and compare these with common industry risk factors to inform our challenge of completeness of forecast costs and cost accruals recorded at the balance sheet date. For a specific contract we used our own major project specialists to assess the reasonableness of the contract projections.
- **Historical comparisons:** We compared the contract forecasts to historic and in year performance to assess the historical accuracy of the forecasts.
- **Test of details:** for contracts assessed as potentially onerous, we compared the allocation of central costs to the group's policy and challenged the underlying assumptions using our understanding of the contract operations.

The risk	Our response
	<p>For selected contract related assets, representing capitalised bid and phase in costs, our procedures included:</p> <ul style="list-style-type: none"> • Assessing application: We assessed whether these had been recognised in accordance with the Group's accounting policy and relevant accounting standards. • Comparing valuations: We inspected actual and forecast contractual cash flows and profits to assess whether these supported the carrying value of the assets. • Historical comparisons: We inspected the underlying contracts to inform our assessment of the forecast cash flows, and compared actual cash flows to forecasts to assess reasonableness. • Independent reperformance: We compared the amortisation period with the duration of the contract and checked that the amortisation had been calculated correctly. <p>Assessing transparency: We also assessed whether the Group's disclosures about the estimates and judgements applied reflected the risks related to the estimation of onerous contracts.</p> <p>Our findings We found no material errors in the group's application of its revenue accounting policy (2018: no material errors). We found the resulting estimate of onerous contract provision to be balanced (2018: balanced).</p>

Independent Auditor's Report continued

to the members of Serco Group plc

Recoverability of group goodwill and of parent's investment in subsidiaries

Group: £671.2m (2018: £579.6m); parent Company: £2,029.5m (2018: £2,021.7m)

Assessment of risk vs. prior year: reduced

Refer to page 116 (Audit Committee Report), page 177 (accounting policy), page 183 (key judgements) and pages 199 to 200 (Goodwill note in the financial statements)

The risk

Forecast-based valuation

Goodwill in the Group and the carrying amount of the parent Company's investments in subsidiaries are significant and at risk of irrecoverability due to uncertainty regarding forecast contract extensions and new contract wins.

The estimated recoverable amount of these balances through value in use calculations is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. We considered the risk of recoverability of the goodwill to have reduced due to the re-organisation of cash generating units (CGUs) in the last year and consequently the higher levels of headroom of the value in use of the business compared to the carrying amounts.

The CGUs which were most sensitive to a deterioration in the division's cash flow projections or an increase in discount rate were the AsPac CGU and Middle East CGU. As at year end 31 December 2019, the AsPac CGU has headroom of £169m and Middle East has headroom of £77m.

The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill and value in use of investments in subsidiaries have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 18) disclose the sensitivity for goodwill estimated by the Group.

Our response

Our procedures included:

- **Benchmarking assumptions:** With the assistance of our valuation specialists, we challenged the growth rate and discount rate for each CGU used in the value in use calculation by comparing certain of the key inputs to these assumptions to external data (such as bond yields and gearing). We challenged forecast assumptions around new contract wins or extensions, contract attrition as well as cost reductions on existing contracts.
- **Historical comparisons:** We compared current year actual cash flows to historic forecasts to assess the historical accuracy of the forecasts in the impairment model and we have also compared forecast cash flows against budgets.
- **Sensitivity analysis:** We tested the sensitivity of impairment calculations to changes in key underlying assumptions, which were discount rate and terminal growth rate for all CGUs. For CGUs that had the lowest headroom, which were: AsPac and Middle East, we challenged the projected win probabilities (including contract extensions) on key contracts within the pipeline and sensitised the five year cash flow forecasts by reducing new wins and extensions within the pipeline.
- **Comparing valuations:** We considered whether the forecast cash flow assumptions used in the value in use calculation were consistent with the assumptions used to calculate the expected loss on onerous contract provisions, the recognition of deferred tax assets and the Directors' assessment of going concern and viability.
- **Assessing transparency:** We also assessed whether the Group's disclosures about the sensitivity of outcomes reflected the risks inherent in the valuation of goodwill.

Our findings:

We found the Group's assessment that there is no impairment of the carrying amount of Group's goodwill and of parent's investment in subsidiaries to be balanced (2018: balanced) and the related sensitivity disclosures to be proportionate (2018: proportionate).

Classification of Exceptional Items £23.4m (2018: £31.9m)

Assessment of risk vs. prior year: unchanged

Refer to page 115 (Audit Committee Report), page 184 (key judgements) and pages 193 to 194 (Exceptional items note in the financial statements)

The risk	Our response
<p>Presentation appropriateness</p> <p>Significant judgement is involved in determining the classification of costs and income as exceptional items in the financial statements. We consider this area to be particularly susceptible to the generic risk of management bias.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Assessing principle: We assessed the Group's accounting policies and principles for recognised elements of costs and income as exceptional. • Assessing application: We assessed the classification of items selected by the Group as exceptional against the Group policy. We inspected accounting papers prepared by the Group to understand the key factors considered and judgements made. We also evaluated whether other material items should be classified as exceptional items in line with the Group's policy. • Consistency of Application: We compared the classification of exceptional items where these relate to, or bear similar characteristics to, historical items to check that these are treated in a consistent manner. • Assessing transparency: We also assessed whether the Group's disclosures regarding the classification of exceptional items appropriately reflects the judgements made. <p>Our findings:</p> <p>In determining the presentation of profit or loss items as exceptional under the Group's accounting policy, there is room for judgement. We found that the Group's judgement was balanced (2018: balanced).</p>

Valuation of acquired intangibles (£52.6 million)

A new key audit matter identified in 2020. Refer to page 113 (Audit Committee Report), page 176 (accounting policy) and pages 190 to 191 (financial disclosures)

The risk	Our response
<p>Forecast-based valuation</p> <p>The Group has recognised significant customer relationship intangible assets as part of the NSBU acquisition. There is inherent uncertainty involved in forecasting the cash flows of the acquired businesses and discounting them to the present day, which determines the fair value of the intangibles at the acquisition date.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the fair value of the acquired intangibles has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Test of details: For the businesses acquired in the year (NSBU's US and Canadian businesses), we compared the forecast revenue and profit margins, used as the basis for the calculation of the fair value of the acquired intangibles at the acquisition date, with the forecasts included in the due diligence reports obtained prior to the acquisition, current year performance of the business and current forecasts. • Our sector experience: We compared the identified intangible assets with our expectation of the categories of assets we would expect based on similar acquisitions in the industry. • Assessing valuer's credentials: We assessed the competence and objectivity of the external experts who prepared the due diligence reports used to support the valuation methodology and assumptions used within the forecasts. • Our valuation expertise: We used our internal specialists to assess the reasonableness of valuation methodologies used and to benchmark key assumptions used in setting the discount rate to market data. We also compared the discount rate set by the Group with our own expectations of an appropriate discount rate. • Sensitivity analysis: We calculated the impact of increasing and decreasing certain key assumptions on the valuation of the acquired intangible assets. <p>Our findings:</p> <p>As a result of our work we found the valuation of the acquired intangible assets to be balanced.</p>

Independent Auditor's Report continued

to the members of Serco Group plc

The risk	Our response
Our application of materiality and an overview of the scope of our audit	<p>Materiality</p> <p>Materiality for the Group financial statements as a whole was set at £5 million (2018: £5 million), determined with reference to a benchmark of group profit before tax, normalised to exclude this year's exceptional items as disclosed in note 10, of £104.5 million (2018: £98.5 million). This materiality represents 4.8% of the benchmark (2018: 5.1%). The group team performed procedures on the items excluded from normalised group profit before tax.</p> <p>Materiality for the parent company financial statements as a whole was set at £4.5 million (2018: £4.5 million), determined with reference to a benchmark of company total assets of £2,263.6 million (2018: £2,449.9 million), of which it represents 0.2% (2018: 0.2%).</p> <p>We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.25 million (2018: £0.25 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.</p> <p>Scope of our audit</p> <p>Of the Group's 6 (2018: 6) reporting components, we subjected 6 (2018: 6) to full scope audits for Group purposes.</p> <p>These 6 (2018: 6) components represent approximately 100% (2018: 100%) of the Group's Revenue, 100% (2018: 100%) of Group profit before tax and 98.4% (2018: 98.4%) of Group total assets.</p> <p>The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved component materiality levels, which ranged from £2.0 million to £3.5 million (2018: £2.0 million to £3.6 million) having regard to the mix of size and risk profile of the Group across the components. The work on 4 of the 6 components (2018: 4 of the 6 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The Group team visited all (2018: all) component locations to assess the audit risk and strategy and also performed reviews over each of the component audit files at year end. Video and telephone conference meetings were also held with these component auditors. At these visits, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.</p> <p>The Group operates a shared service centre in India, the outputs of which are included in the financial information of the reporting components it services and therefore it is not a separate reporting component. The shared service centre is subject to specified risk-focused audit procedures by us, principally the testing of transaction processing controls. Additional procedures are performed at certain reporting components to address specific audit risks not addressed by the work performed centrally over the shared service centre.</p>

The risk

We have nothing to report on going concern

Our response

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- The impact of a significant reduction in contract profitability arising from the one, or a combination of, the principal risks outlined in the Group's strategic on page 54, including the early termination of contracts; and
- The impact of a material legal and regulatory compliance failure.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise, including the cover that would be provided under the Group's insurance policies. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and political and policy changes in Serco's markets.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 152 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

Independent Auditor's Report continued

to the members of Serco Group plc

The risk	Our response
We have nothing to report on the other information in the Annual Report	<p>The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.</p> <p>Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.</p> <p>Strategic report and directors' report</p> <p>Based solely on our work on the other information:</p> <ul style="list-style-type: none">• we have not identified material misstatements in the strategic report and the directors' report;• in our opinion the information given in those reports for the financial year is consistent with the financial statements; and• in our opinion those reports have been prepared in accordance with the Companies Act 2006. <p>Directors' remuneration report</p> <p>In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.</p> <p>Disclosures of emerging and principal risks and longer-term viability</p> <p>Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:</p> <ul style="list-style-type: none">• the directors' confirmation within the Viability Statement on page 64 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;• the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and• the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. <p>Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.</p> <p>Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.</p> <p>Corporate governance disclosures</p> <p>We are required to report to you if:</p> <ul style="list-style-type: none">• we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or• the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. <p>We are required to report to you if the Corporate Governance Report does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.</p> <p>We have nothing to report in these respects.</p>

The risk	Our response
<p>We have nothing to report in respect of the matters on which we are required to report by exception</p>	<p>Under the Companies Act 2006, we are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> • adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit. <p>We have nothing to report in these respects.</p>
<p>Respective responsibilities</p>	<p>Directors' responsibilities</p> <p>As explained more fully in their statement set out on page 154, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.</p> <p>Auditor's responsibilities</p> <p>Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.</p> <p>A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.</p> <p>Irregularities – ability to detect</p> <p>We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.</p> <p>The potential effect of these laws and regulations on the financial statements varies considerably.</p> <p>Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.</p>

Independent Auditor's Report continued

to the members of Serco Group plc

The risk

Respective responsibilities continued

Our response

Auditor's responsibilities continued

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, employment law, data protection laws and certain aspects of company legislation. Auditing standards limit the required audit procedures to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and the further matters we are required to state to them in accordance with the terms agreed by the Company and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
25 February 2020

Consolidated Income Statement

For the year ended 31 December

	Note	2019 £m	2018 £m
Revenue	9	3,248.4	2,836.8
Cost of sales		(2,928.3)	(2,546.6)
Gross profit		320.1	290.2
Administrative expenses			
Other general and administrative expenses		(214.2)	(202.3)
Exceptional loss on disposal of subsidiaries and operations	8	–	(0.5)
Other exceptional operating items	10	(23.4)	(31.4)
Other expenses – amortisation and impairment of intangibles arising on acquisition	19	(7.5)	(4.3)
Total administrative expenses		(245.1)	(238.5)
Share of profits in joint ventures and associates, net of interest and tax	6	27.5	28.8
Operating profit		102.5	80.5
Operating profit before exceptional items		125.9	112.4
Investment revenue	13	2.7	4.3
Finance costs	14	(24.5)	(18.2)
Exceptional finance income	10	–	7.5
Total net finance costs		(21.8)	(6.4)
Profit before tax		80.7	74.1
Profit before tax and exceptional items		104.1	98.5
Tax on profit before exceptional items	15	(27.4)	(8.8)
Exceptional tax	15	(2.7)	2.1
Tax charge		(30.1)	(6.7)
Profit for the year		50.6	67.4
Attributable to:			
Equity owners of the Company		50.4	67.4
Non controlling interests		0.2	–
Earnings per share (EPS)			
Basic EPS	17	4.31p	6.16p
Diluted EPS	17	4.21p	5.99p

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	Note	2019 £m	2018 £m
Profit for the year		50.6	67.4
Other comprehensive income for the year:			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial (loss)/gain on defined benefit pension schemes*	31	(20.3)	52.1
Actuarial gain/(loss) on reimbursable rights*	31	3.2	(0.2)
Tax relating to items not reclassified*	15	2.7	(9.2)
Share of other comprehensive income in joint ventures and associates	6	1.3	2.0
Items that may be reclassified subsequently to profit or loss:			
Net exchange loss on translation of foreign operations**		(33.3)	(5.3)
Fair value (loss)/gain on cash flow hedges during the year**		(0.1)	0.6
Total other comprehensive (loss)/income for the year		(46.5)	40.0
Total comprehensive income for the year		4.1	107.4
Attributable to:			
Equity owners of the Company		4.0	107.3
Non controlling interest		0.1	0.1

* Recorded in retirement benefit obligations reserve in the Consolidated Statement of Changes in Equity.

** Recorded in hedging and translation reserve in the Consolidated Statement of Changes in Equity.

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Changes in Equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Retirement benefit obligations reserve £m	Share based payment reserve £m	Own shares reserve £m	Hedging and translation reserve £m	Total shareholders' equity £m	Non controlling interest £m
At 1 January 2018	22.0	327.9	0.1	41.8	(180.1)	88.3	(46.1)	10.1	264.0	1.3
Total comprehensive income for the year	-	-	-	69.3	42.7	-	-	(4.7)	107.3	0.1
Shares transferred to option holders on exercise of share options	-	-	-	-	-	(28.0)	27.4	-	(0.6)	-
Expense in relation to share based payments	-	-	-	-	-	14.7	-	-	14.7	-
At 1 January 2019	22.0	327.9	0.1	111.1	(137.4)	75.0	(18.7)	5.4	385.4	1.4
Opening balance adjustment – IFRS16 (note 2)	-	-	-	3.0	-	-	-	-	3.0	-
Total comprehensive income for the year	-	-	-	51.8	(14.4)	-	-	(33.4)	4.0	0.1
Issue of share capital	2.5	135.0	-	-	-	-	(0.3)	-	137.2	-
Shares transferred to option holders on exercise of share options	-	-	-	-	-	(14.4)	14.6	-	0.2	-
Expense in relation to share based payments	-	-	-	-	-	11.6	-	-	11.6	-
At 31 December 2019	24.5	462.9	0.1	165.9	(151.8)	72.2	(4.4)	(28.0)	541.4	1.5

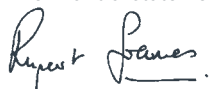
The accompanying notes form an integral part of the financial statements.

Consolidated Balance Sheet

	Note	At 31 December 2019 £m	At 31 December 2018 £m
Non current assets			
Goodwill	18	671.2	579.6
Other intangible assets	19	96.5	67.3
Property, plant and equipment	20	392.6	64.8
Interests in joint ventures and associates	6	23.6	20.6
Trade and other receivables	22	26.5	30.3
Derivative financial instruments	30	–	0.1
Deferred tax assets	16	63.9	60.9
Retirement benefit assets	31	78.3	85.8
		1,352.6	909.4
Current assets			
Inventories	21	18.3	22.9
Contract assets	22	293.5	244.3
Trade and other receivables	22	315.7	299.5
Current tax assets		6.8	7.3
Cash and cash equivalents	23	89.5	62.5
Derivative financial instruments	30	3.0	7.7
		726.8	644.2
Total assets		2,079.4	1,553.6
Current liabilities			
Contract liabilities	24	(66.8)	(74.3)
Trade and other payables	24	(489.0)	(419.7)
Derivative financial instruments	30	(1.9)	(3.7)
Current tax liabilities		(18.7)	(29.2)
Provisions	27	(58.4)	(120.1)
Lease obligations	25	(84.6)	(5.7)
Loans	26	(56.1)	(21.9)
		(775.5)	(674.6)
Non current liabilities			
Contract liabilities	24	(58.2)	(86.6)
Trade and other payables	24	(14.5)	(23.3)
Deferred tax liabilities	16	(26.7)	(21.4)
Provisions	27	(103.4)	(119.3)
Lease obligations	25	(285.3)	(9.1)
Loans	26	(248.9)	(217.6)
Retirement benefit obligations	31	(24.0)	(14.9)
		(761.0)	(492.2)
Total liabilities		(1,536.5)	(1,166.8)
Net assets		542.9	386.8
Equity			
Share capital	32	24.5	22.0
Share premium account	33	462.9	327.9
Capital redemption reserve		0.1	0.1
Retained earnings		165.9	111.1
Retirement benefit obligations reserve		(151.8)	(137.4)
Share based payment reserve		72.2	75.0
Own shares reserve		(4.4)	(18.7)
Hedging and translation reserve		(28.0)	5.4
Equity attributable to owners of the Company		541.4	385.4
Non controlling interest		1.5	1.4
Total equity		542.9	386.8

The accompanying notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 25 February 2020 and signed on its behalf by:



Rupert Soames
Group Chief Executive Officer



Angus Cockburn
Group Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 31 December

	Note	2019 £m	2018 £m
Net cash inflow from operating activities before exceptional items		152.1	42.9
Exceptional items		(49.2)	(40.2)
Net cash inflow from operating activities	37	102.9	2.7
Investing activities			
Interest received		0.4	0.6
Increase/(decrease) in security deposits		0.2	(0.3)
Dividends received from joint ventures and associates		25.4	29.7
Proceeds from disposal of property, plant and equipment		1.0	5.3
Proceeds from disposal of intangible assets		–	0.5
Net cash inflow on disposal of subsidiaries and operations	8	–	1.5
Acquisition of subsidiaries, net of cash acquired	7	(193.2)	(32.8)
Proceeds from loans receivable		–	29.9
Exceptional finance income received		–	7.5
Purchase of other intangible assets		(6.8)	(8.9)
Purchase of property, plant and equipment		(17.5)	(26.4)
Net cash (outflow)/inflow from investing activities		(190.5)	6.6
Financing activities			
Interest paid		(21.4)	(16.7)
Capitalised finance costs paid		(1.2)	(2.0)
Advances/(repayment) of loans		72.3	(31.3)
Capital element of lease repayments		(70.2)	(8.7)
Cash movements on hedging instruments		(2.0)	0.2
Issue of share capital		138.7	–
Proceeds received from exercise of share options		0.2	–
Net cash inflow/(outflow) from financing activities		116.4	(58.5)
Net increase/(decrease) in cash and cash equivalents		28.8	(49.2)
Cash and cash equivalents at beginning of year		62.5	112.1
Net exchange loss		(1.8)	(0.4)
Cash and cash equivalents at end of year	23	89.5	62.5

The accompanying notes form an integral part of the financial statements.

Notes to the Consolidated Financial Statements

1. General information

Serco Group plc (the Company) is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY.

These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the Group) and are presented in pounds Sterling because this is the currency of the primary economic environment in which Serco operates. All amounts have been rounded to the nearest one hundred thousand pounds, foreign operations are included in accordance with the policies set out in note 2.

2. Significant accounting policies

Basis of accounting

These consolidated financial statements on pages 167 to 227 have been prepared in accordance with International Financial Reporting Standards adopted for use in the European Union (IFRS) and therefore comply with the requirements set out in Article 4 of the EU IAS regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The following principal accounting policies adopted have been applied consistently in the current and preceding financial year except as stated below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company up to 31 December each year. Control is achieved when the Company:

- (i) has power over the investee;
- (ii) is exposed, or has rights to variable returns from its involvement with the investee; and
- (iii) has the ability to use its power to affect the returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Non controlling interests represent the portion of profits or losses and net assets in subsidiaries that is not held by the Group and is presented within equity in the consolidated balance sheet, separate from equity of shareholders of Serco Group plc.

Going concern

The Directors have a reasonable expectation that the Company and the Group will be able to operate within the level of available facilities and cash for the foreseeable future, and accordingly believe that it is appropriate to prepare the financial statements on a going concern basis.

In assessing the basis of preparation of the financial statements for the year ended 31 December 2019, the Directors have considered the principles of the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014'; particularly in assessing the applicability of the going concern basis, the review period and disclosures.

The Directors have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts, which indicate sufficient capacity in our financing facilities and associated covenants to support the Group. In order to satisfy themselves that they have adequate resources for the future, the Directors have reviewed the Group's existing debt levels, the committed funding and liquidity positions under our debt covenants, and our ability to generate cash from trading activities and working capital requirements.

The Group's current principal debt facilities as at 31 December 2019 comprised a £250m revolving credit facility, a three year term acquisition facility of £45m and £213m of US private placement notes. As at 31 December 2019, the Group had £508m of committed credit facilities and committed headroom of £286m. In undertaking this review the Directors have considered the business plans which provide financial projections for the foreseeable future. For the purposes of this review, we consider that to be the period ending 30 June 2021.

Adoption of new and revised standards

IFRS16 *Leases* (effective 1 January 2019), specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset is of a low value. Lessors continue to classify leases as operating or finance, with the IFRS16 approach to lessor accounting remaining substantially unchanged from its predecessor, IAS17.

Under the applicable transition rules a lessee shall either apply IFRS16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS16 as an adjustment to opening equity at the date of initial application, subject to the Group's application of the following expedients:

- No reassessment is required as to whether a contract is, or contains, a lease at the date of initial application.
- No reassessment is required for:
 - leases with a lease term end date within one year of the date of initial application; or
 - leases for low value assets, which the Group considers to be those with an initial cost value less than £5,000 except for circumstances where those assets form part of a bundle of leased assets accounted for as a single lease contract.
- The Group has adopted the modified retrospective transition approach and as such the valuation of the right of use asset at 1 January 2019 is calculated as if the lease had always existed and hence the net book value of the asset on 1 January 2019 is based on the assumption of straight line amortisation.
- The lease liability at 1 January 2019 is calculated as the present value of future payments in relation to the lease, discounted at the applicable incremental borrowing rate.

The impact for the Group of adopting IFRS16 is as follows:

	As at 1 January 2019 £m
Retained earnings at 31 December 2018	111.1
Lease liability recognised	(129.1)
Right of use asset recognised, net of impairments	104.2
Impact of IFRS16 on opening provisions	12.5
Impact of IFRS16 on other creditors	10.6
Deferred tax asset recognised	5.1
Adjustment to retained earnings due to the implementation of IFRS16	3.3
Impact of IFRS16 on interest in joint ventures at 1 January 2019	(0.3)
Retained earnings at 1 January 2019	114.1

The impact of IFRS16 on the Group's income statement is to increase finance costs and improve trading profit as lease costs are replaced with a lower depreciation charge. The impact to 2019 is outlined in the Divisional Reviews on pages 35 to 41 and to key metrics in the Finance Review on page 59.

In calculating the lease liability to be recognised on transition, the Group used a weighted average incremental borrowing rate on 1 January 2019 of 3.50%. Applying this weighted average incremental borrowing rate to the operating lease commitments recognised as at 31 December 2018 gives a liability of £187.2m. This differs from the lease liability recognised as a result of transitioning to IFRS16 for the following reasons:

	£m
Minimum lease payments under non-cancellable operating leases recognised in accordance with IAS17	
Leases as at 31 December 2018:	
Within one year	73.2
Between one and five years	95.1
After five years	22.1
	190.4
Finance leases	14.8
Operating lease commitments discounted at the weighted average incremental borrowing rate	187.2
Less: leases ending within 12 months of the transition date to IFRS16 covered by the practical expedient	(44.8)
Less: leases included in the operating lease commitment not meeting the recognition criteria of IFRS16	(13.3)
Lease liability on transition to IFRS16	143.9

The implementation of IFRS16 *Leases* has required the Group to make a number of judgements and estimates. The key judgements applied relate to the likelihood of lease extension options being exercised, the certainty of the exercise of termination options and the identification of leases embedded within other contracts. The key estimates used in assessing the impact of adopting the new standard are the incremental borrowing rates applied in calculating the present value of future lease payments to identify the lease liability at 1 January 2019.

Notes to the Consolidated Financial Statements continued

2. Significant accounting policies continued

In addition to the areas where a financial impact has been identified as a result of adoption of IFRS16 as identified above, there are certain accounting policies which are new or change existing policies applied by the Group and may have an impact on the future financial performance of the Group. The policies in these areas to be adopted by the Group are set out below:

- (i) Lease amendments. Where changes in a lease occur, this will trigger a reassessment of the lease liability. Changes in the lease liability will be recognised via an adjustment to the right of use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, any remaining amount of the remeasurement will be recognised in profit or loss.
- (ii) Lease incentives. Where a lease incentive is received prior to the commencement of a lease, the amount is offset against the right of use asset at inception. Where a lease includes a period or periods of reduced or free rentals, these are included in the calculation of the present value of the lease liability on inception.
- (iii) Variable lease payments. Where a contract to lease an asset has a pricing mechanism that allows for changes after the commencement date, other than those that change simply due to the passage of time, it is considered to have variable lease payments. These payments will depend on an index or rate and are included in the calculated lease liability at the lease commencement date according to the rate or index as at that date.
- (iv) Sub-leases. Where a group entity leases an asset and this asset is subsequently leased to another entity, this is considered to be a sub-lease if the original head lease remains in place. In this instance the entity which has entered into the head lease is acting as both a lessee and a lessor simultaneously. As a result, the head lease is accounted for in accordance with the group's lease accounting policy. When acting as a lessor, there is a requirement to determine whether the sub-lease is an operating lease or a finance lease, with the accounting following this determination.
- (v) Separate lease and non-lease components. Lease contracts can often contain elements related to the use of an asset and elements that are unrelated, for example where a property lease also includes a charge for insurance or maintenance. The lease component and the associated non-lease component are accounted for as a single lease component.
- (vi) Lease terminations. Where a lease is terminated before the end of the lease term the right of use asset is disposed of with the carrying value being charged to the income statement whilst the lease liability is extinguished from the balance sheet resulting in a credit to the income statement. The net charge or credit to the income statement is added to any cost of exiting the lease to result in a profit or loss on lease termination.

As an interpretation, IFRIC23 *Uncertainty over Income Tax Treatments* clarifies the application of the recognition and measurement criteria of IAS12 when there is uncertainty over income tax treatments yet to be accepted by tax authorities. The interpretation had an effective date of 1 January 2019 so is reflected in the Group's financial statements for the period ended 31 December 2019. Application of this interpretation did not have a significant impact on the Group's financial statements.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date, regardless of whether that price is directly observable or is estimated using another valuation technique. There are certain transactions in these financial statements which are similar to fair value, but are determined by the treatment set out in their respective standards. These are share based payment transactions that are within the scope of IFRS2 *Share Based Payment*, leasing transactions that are within the scope of IFRS16 *Leases*, or the calculation of net realisable value under IAS2 *Inventories* or value in use under IAS36 *Impairment of Assets*.

Revenue recognition

The nature of the goods and services that the Group has promised to transfer can be read about in more detail in the Strategic Report of the Annual Report and Accounts, including the overview of the core sectors in which the Group operates and the key services provided on page 4, details of our markets and business model on pages 12 to 16, and major developments in the latest year are reviewed in the Chief Executive's Review on pages 22 to 34 and the Divisional Reviews on pages 35 to 41.

Revenue recognition: Repeat service based contracts

The majority of the Group's contracts are repeat service based contracts where value is transferred to the customer over time as the core services are delivered and therefore in most cases revenue will be recognised on the output basis, with revenue linked to the deliverables provided to the customer. Where any price step downs are required in a contract accounted for under the output basis and output is not decreasing, revenue will require deferral from initial years to subsequent years in order for revenue to be recognised on a consistent basis.

There are certain contracts where a separate performance obligation has been identified for services where the pattern of delivery differs to the core services and which are capable of being distinct. In these instances, where the transfer of control is most closely aligned to our efforts in delivering the service, then the input method is used to measure progress, and revenue is recognised in direct proportion to costs incurred. Where deemed appropriate, the Group will utilise the practical expedient within IFRS15, allowing revenue to be recognised at the amount which the Group has the right to invoice, where that amount corresponds directly with the value to the customer of the Group's performance completed to date.

Under IFRS15, unless upfront fees received from customers including transition payments can be clearly attributed to a distinct service the customer is obtaining, then such payments do not constitute a separate performance obligation and instead are deferred and spread over the life of the core services.

In general, the timing of satisfaction of performance obligations is consistent with when payment becomes due other than in instances where up front win fees or transition payments are received, where in most instances these are deferred.

Any changes to the enforceable rights and obligations with customers and/or an update to the transaction price will not be recognised as revenue until there is evidence of customer agreement in line with the Group's policies.

Any variable amounts will only be recognised where it is highly probable that a significant reversal will not occur. Variable revenues include volume based revenue, KPI based revenue and profit share elements.

Where the Group is required to assess whether it is acting as principal or as an agent in respect of goods or services procured for customers, the Group is acting as principal if it is in control of a good or a service prior to transferring to the customer and an agent where it is arranging for those goods or services to be provided to the customer without obtaining control.

Revenue recognition: Long-term project based contracts

The Group has a limited number of project-based long-term contracts. Revenue associated with these contracts is recognised at the point in time when control over the deliverable is passed to the customer.

Revenue recognition: Contract modifications

When a modification to an existing contract is approved, the Group first assesses whether it adds distinct goods or services to the existing contract that are priced commensurate with the stand-alone selling prices for those goods or services. If this is the case then the modification is accounted for prospectively as a separate contract. If the pricing is not commensurate with the stand-alone selling prices for the goods or services and the new goods or services are not distinct from those in the original contract then this is considered to form part of the original contract. Pricing is updated for the entirety of the revised contract and any historic adjustments recognised as a result are recognised through opening retained earnings. If the pricing is not commensurate with the stand-alone selling prices for the goods or services and the new goods or services are distinct from those in the original contract then this is considered to represent the termination of the original contract and the creation of a new contract which is accounted for prospectively from the date of modification.

Revenue recognition: Other

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued for on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

The Group has no material exposure to returns or refunds.

Contract costs

Bid costs are capitalised only when they relate directly to a contract and are incremental to securing the contract. Bid costs are amortised over the duration of the contract to which they relate in equal annual instalments. Any costs which would have been incurred whether or not the contract is actually won are not considered to be capitalised bid costs.

Contract costs are charged to the income statement as incurred, including the necessary accrual for costs which have not yet been invoiced, unless the expense relates to a specific time frame covering future periods.

Contract costs can only be capitalised when the expenditure meets all of the following three criteria and are not within the scope of another accounting standard, such as inventories, intangible assets, or property, plant and equipment:

- The costs relate directly to a contract. These include: direct labour, being the salaries and wages of employees providing the promised services to the customer; direct materials such as supplies used in providing the promised services to a customer; and other costs that are incurred only because an entity entered into the contract, such as payments to subcontractors.
- The costs generate or enhance the resources used in satisfying performance obligations in the future. For initial contract costs capitalised, such costs only fall into one of the following two categories: the mobilisation of contract staff, being the costs of moving existing contract staff to other Group locations; or directly incremental costs incurred in meeting contractual obligations incurred prior to contract delivery, which are required to ensure a proper handover from the previous contractor. Redundancy costs are never capitalised.
- The costs are expected to be recovered, i.e. the contract is expected to be profitable after amortising the capitalised costs.

Notes to the Consolidated Financial Statements continued

2. Significant accounting policies continued

Operating profit

Operating profit is not a measure defined by IFRS and the Group considers this to include the profits and losses from operations prior to corporation tax, interest revenue and finance costs.

Foreign currencies

Transactions in currencies other than Sterling are recorded at the rates of exchange on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included in the net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity through the consolidated statement of comprehensive income (SOC).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised directly within equity in the Group's hedging and translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Dividends

Dividend distributions are recognised as a liability in the year in which the dividends are approved by the company's shareholders. Interim dividends are recognised when they are paid; final dividends when authorised in general meetings by shareholders. Dividend income is recognised on receipt.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred. Where acquisition and transition costs for successful acquisitions are material, they are disclosed as exceptional costs within note 10.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (which is subject to a maximum of one year). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with the relevant accounting standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 (2008) *Business Combinations* are recognised at their fair value at the acquisition date, except where a different treatment is mandated by another standard.

Investments in joint ventures and associates

A joint venture is an arrangement whereby the owning parties have joint control and rights over the net assets of the arrangement. The Group's investments in joint ventures are incorporated using the equity method of accounting.

Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Any excess of the cost of acquisition over the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying value amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss. Where the Group entity transacts with a joint venture, profits and losses are eliminated to the extent of the Group's interest in the arrangement.

Determining whether joint control exists requires a level of judgement, based upon specific facts and circumstances which exist at the year end. Details of the unconsolidated joint ventures are provided in notes 5 and 6.

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control. The results, and assets and liabilities of associates are also incorporated in these financial statements using the equity method of accounting.

Goodwill

Goodwill is measured as the excess of the fair value of purchase consideration over the fair value of the net assets acquired and is recognised as an intangible asset when control is achieved. Negative goodwill is recognised immediately in the income statement. Fair value measurements are based on provisional estimates and may be subject to amendment within one year of the acquisition, resulting in an adjustment to goodwill.

Goodwill itself does not generate independent cash flows and therefore, in order to perform required tests for impairment, it is allocated at inception to the specific cash generating units (CGUs) or groups of CGUs which are expected to benefit from the acquisition.

On the disposal of a business which includes all or part of a CGU, any attributable goodwill is included in the determination of the profit or loss on disposal. Where part of a CGU with goodwill is sold, the attributable amount is calculated based on the future discounted cash flows leaving the Group as a proportion of the CGU's total future discounted cash flows.

The fair values associated with material business combinations are valued by external advisers and any amount of consideration which is contingent in nature is evaluated at the end of each reporting period, based on internal forecasts.

Other intangible assets

Material intangible assets are grouped into classes of similar nature and use and separately disclosed. Other intangible assets are amortised from the date of completion.

Customer relationships can arise on the acquisition of subsidiaries and represent the incremental value expected to be gained as a result of existing contracts in the purchased business. These assets are amortised over the average length of the related contracts.

Licences comprise premiums paid for the acquisition of licences, while franchises represent costs incurred in obtaining franchise rights arising on the acquisition of franchises. These are amortised on a straight-line basis over the life of the respective licence or franchise.

Software and IT represent computer systems and processes used by the Group in order to generate future economic value through normal business operations. The underlying assets are amortised over the period from which the Group expects to benefit, which is typically between three to eight years.

Development expenditure is capitalised as an intangible asset only if all of certain conditions are met, with all research costs and other development expenditure being expensed when incurred. The period of expected benefit, and therefore period of amortisation, is typically between three and eight years. The capitalisation criteria are as follows:

- an asset is created that can be separately identified, and which the Group intends to use or sell;
- the finalisation of the asset is technically feasible and the Group has adequate resources to complete its development for use or sale;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Property, plant and equipment

Assets held for use in the rendering of services, or for administrative purposes, are stated in the balance sheet at cost, net of accumulated depreciation and any provision for impairment. Assets are grouped into classes of similar nature and use and separately disclosed except where this is not material.

Depreciation is provided on a straight line basis at rates designed to reduce the assets to their residual value over their estimated useful lives.

The principal annual rates used are:

Freehold buildings	2.5%
Short leasehold assets	The higher of 10% or the rate produced by the lease term
Machinery	15% – 20%
Motor vehicles	10% – 50%
Furniture	10%
Office equipment	20% – 33%
Right of use assets	Equally over the lease term from inception or equally over the remainder of the lease term from the date of a reassessment of the lease end date

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement. Given that there is limited history of material gains or losses on disposal of fixed assets, the level of judgement involved in determining the depreciation rates is not considered to be significant.

Notes to the Consolidated Financial Statements_{continued}

2. Significant accounting policies_{continued}

Asset impairment

The Group reviews the carrying amounts of its tangible and intangible assets (including goodwill) at each reporting period, together with any other assets under the scope of IAS36 *Impairment of Assets*, in order to assess whether there is any indication that those assets have suffered an impairment loss. As the impairment of assets has been identified as both a key source of estimation uncertainty and a critical accounting judgement, further details around the specific judgements and estimates can be seen in note 3.

If any indication of impairment exists, the recoverable amount of the asset is estimated in order to determine if there is any impairment loss. Goodwill is assessed for impairment annually, irrespective of whether there are any indicators of impairment. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is defined as the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value with reference to pre-tax discount rates that reflect the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount is estimated to be less than the carrying amount of the asset, the carrying amount is impaired to its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for indications that the loss which led to the impairment has decreased or no longer exists. Where an impairment loss is subsequently reversed, the carrying amount is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior years.

At each reporting date, the Group assesses whether there is an indication that a previously recognised impairment loss has reversed because of a change in the estimates used to determine the impairment loss. If there is such an indication, and the recoverable amount of the impaired asset, or CGU, subsequently increases, then the impairment loss is generally reversed. Impairment losses and reversals are recognised immediately within administrative expenses within the income statement unless it is considered to be an exceptional item.

Retirement benefit costs

Payments to defined contribution pension schemes are charged as an expense as they fall due.

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial cost method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and are presented in the statement of comprehensive income.

Both current and past service costs are the amounts recognised in the income statement, reflecting the expense associated with the individuals. Current service cost represents the increase in the present value of the scheme liabilities expected to arise from employee service in the current period. Past service cost is recognised immediately. Gains and losses on curtailments or settlements are recognised in the income statement in the period in which the curtailment or settlement occurs.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to the present value of available refunds (which is only recognised to the extent that the Group has an unconditional right to receive it) and reductions in future contributions to the scheme. To the extent that an economic benefit is available as a reduction in future contributions and there is a minimum funding requirement required of the Group, the economic benefit available as a reduction in contributions is calculated as the present value of the estimated future service cost in each year, less the estimated minimum funding contributions required in respect of the future accrual and benefits in that year.

Calculation of the amounts recognised in the consolidated financial statements in respect of defined benefit pension schemes requires a high level of judgement, as further explained in note 3.

Defined benefit obligations arising from contractual obligations

Where the Group takes on a contract and assumes the obligation to contribute variable amounts to the defined benefit pension scheme throughout the period of the contract, the Group's share of the defined benefit obligation less its share of the pension scheme assets that it will fund over the period of the contract is recognised as a liability at the start of the contract with a corresponding amount being recognised as an intangible asset. The intangible asset, which reflects the Group's right to manage and operate the contract, is amortised over the contract period. The Group's share of the scheme assets and liabilities is calculated by reducing the scheme assets and liabilities by a franchise adjustment. The franchise adjustment represents the estimated amount of scheme deficit that will be funded outside the contract period. Subsequent actuarial gains and losses in relation to the Group's share of pension obligations are recognised within Other Comprehensive Income.

End of contract provisions

Where the Group has a legal or constructive obligation to compensate employees at the end of a contract term and these employees cannot be relocated within the Group, a provision is recognised to reflect the expected outflow of economic benefits at the end of the contract. The obligation is reassessed at each reporting date. The amount calculated assumes the tenure of the employee base, expected employee turnover and salary.

Derivative financial instruments and hedging activities

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange risk and price risk, including currency swaps, foreign exchange forward contracts, interest rate swaps and commodity future contracts. Further details of derivative financial instruments are given in note 30.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities (fair value hedges) or hedges of highly probable forecast transactions or hedges of firm commitments (cash flow hedges).

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Both at the inception of the hedge and on a periodic basis, the Group assesses whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

A derivative is presented as a non current asset or a non current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Derivatives, which mature within 12 months, are presented as current assets or current liabilities.

Details of the fair values of the derivative instruments used for hedging purposes and movements in the hedging and translation reserve in equity are detailed in the SOCI and described in note 30.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when a hedge is no longer effective as a result of a change in risk management strategy, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is realised in the profit or loss account.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when a hedge is no longer effective as a result of a change in risk management strategy, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements_{continued}

2. Significant accounting policies_{continued}

Tax

The tax expense represents the sum of current tax expense and deferred tax expense.

Current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for accounting purposes.

Deferred tax assets are generally recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which these items can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of an asset and liability in a transaction other than a business combination and, at the time of the transaction, it affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority where the Group intends to settle its current tax assets and liabilities on a net basis.

Share based payment

Where the fair value of share options or shares under award requires the use of a valuation model, fair value is measured by use of Binomial Lattice, Black-Scholes or Monte Carlo Simulation models depending on the type of scheme, as set out in note 35. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions, and behavioural considerations. Where relevant, the value of the option or award has also been adjusted to take account of market conditions applicable to the option or award.

Inventories

Inventories are stated at the lower of cost and net realisable value and comprise service spares, parts awaiting installation and work in progress for projects undertaken for customers where payment is received on completion. Cost comprises direct materials and, where applicable, direct labour costs that have been incurred in bringing the inventories to their present location and condition.

Trade receivables

Trade receivables are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any provision for impairment, to ensure that amounts recognised represent the recoverable amount.

A provision for impairment arises where there is evidence that the Group will not be able to collect amounts due, which is achieved by creating an allowance for doubtful debts recognised in the income statement within administrative expenses. Determining whether a trade receivable is impaired requires judgement to be applied based on the information available at each reporting date. Key indicators of impairment include disputes with customers over commercial positions, or where debtors have significant financial difficulties such as historic default of payments or information that suggests bankruptcy or financial reorganisation are a reasonable possibility. The majority of contracts entered into by the Group are with government organisations and therefore historic levels of default are relatively low and as a result the risks associated with this judgement are not considered to be significant.

When a trade receivable is expected to be uncollectible, it is written off against the allowance for doubtful debts. Subsequent recoveries of amounts previously provided for or written off are credited against administrative expenses.

An expected credit loss is recorded where there is evidence that a counterparty is at risk of default due to their credit worthiness. The Group's customer base is predominantly Government or Government-backed and as a result the Group's expected credit loss at a given point in time across the entirety of the customer base is immaterial.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant changes in value and have a maturity of three months or less from the date of acquisition. This definition is also used for the consolidated cash flow statement.

Leases

On entering into a lease, a lease liability is recorded equal to the value of future lease payments discounted at the appropriate incremental borrowing rate and simultaneously a right of use asset is created representing the right conferred to control the manner of use of the leased asset.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement and corresponding assets are depreciated on a straight-line basis over the lease term.

The lease term is measured as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised and periods covered by an option to terminate the lease if it is reasonably certain that the option will not be exercised. The lease term is reassessed if an event occurs which causes either the non-cancellable period to change, or another event occurs which changes the assessment of the likelihood of exercising an option included in the lease.

All changes to leases are accounted for on a prospective basis from the point at which the change is triggered.

Where, on inception, the term of a lease is less than 12 months or the value of the leased asset is less than £5,000, or both, rentals payable under the lease are charged to the income statement on a straight-line basis over the term of the relevant lease.

Loans

Loans are stated at amortised cost using the effective interest-rate method. Accrued interest is recorded separately from the associated borrowings within current liabilities.

Loans are described as non-recourse loans and classified as such only if no Group company other than the relevant borrower has an obligation, under a guarantee or other arrangement, to repay the debt.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has an obligation to make a cash outflow as a result of a past event. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date when settlement is considered to be likely.

Onerous contract provisions (OCPs) arise when the unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received. Unavoidable costs include total contract costs together with a rational allocation of shared costs that can be directly linked to fulfilling contractual obligations which have been systematically allocated to OCPs on the basis of key cost drivers except where this is impracticable, where contract revenue is used as a proxy to activity. The provision is calculated as the lower of the termination costs payable for an early exit and the best estimate of net cost to fulfil the Group's unavoidable contract obligations. Where a customer has an option to extend a contract and it is likely that such an extension will be made, the expected net cost arising during the extension period, is included within the calculation. However, where a profit can be reasonably expected in the extension period, no credit is taken on the basis that such profits are uncertain given the potential for the customer to either not extend or offer an extension under lower pricing terms. Further details of the judgements can be seen in note 3.

Notes to the Consolidated Financial Statements^{continued}

2. Significant accounting policies^{continued}

Net investments in foreign operations

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operations are initially recognised in equity and accumulated in the hedging and translation reserve and reclassified from equity to profit or loss on disposal of the net investment. When monetary items no longer form part of a hedging relationship, the exchange differences that arose during the time that the hedge was in place remain in the hedging translation reserve until such time as the net investment is disposed of.

Segmental information

Segmental information is based on internal reports about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) in order to allocate resources to the segments and to assess their performance. The CODM is considered to be the Board of Directors as a body.

Segmental revenue is analysed on an external basis. Inter-segment revenue is not presented as it is not significant in the context of revenue as a whole. Net finance costs are not presented for each operating segment as they are reviewed on a consolidated basis by the CODM.

Specific corporate expenses are allocated to the corresponding segments. Segment assets comprise goodwill, other intangible assets, property, plant and equipment, inventories, trade and other receivables (excluding corporation tax recoverable) and any retirement benefit asset. Segment liabilities comprise trade and other payables and retirement benefit obligations.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 2 above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements. As described below, many of these areas of judgement also involve a high level of estimation uncertainty.

Key sources of estimation uncertainty

Provisions for onerous contracts

Determining the carrying value of onerous contract provisions requires assumptions and complex judgements to be made about the future performance of the Group's contracts. The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the measurement of a provision booked, is linked to the complexity of the underlying contract and the form of service delivery. Due to the level of uncertainty and combination of variables associated with those estimates there is a significant risk that there could be a material adjustment in respect of onerous contract provisions within the next financial year.

Major sources of uncertainty which could result in a material adjustment within the next financial year are:

- The ability of the company to maintain or improve operational performance to ensure costs or performance-related penalties are in line with expected levels.
- Volume driven revenue and costs being within the expected ranges.
- The outcome of matters dependent on the behaviour of the customer, such as a decision to extend a contract where it has the unilateral right to do so.
- The outcome of open claims made by or against a customer regarding contractual performance.
- The ability of suppliers to deliver their contractual obligations on time and on budget.

In the current year, an amount of £2.5m was charged to historic provisions, and releases of £9.6m have been made. One new OCP was recognised during the year with the charge being £1.9m. Further details are provided in the Finance Review within the Strategic Report. All of these revisions have resulted from triggering events in the current year, either through changes in contractual positions or changes in circumstances which could not have been reasonably foreseen at the previous balance sheet date. To mitigate the level of uncertainty in making these estimates management regularly compares actual performance of the contracts against previous forecasts and considers whether there have been any changes to significant judgements. A detailed bottom up review of the provisions is performed as part of the Group's formal annual budgeting process.

The future range of possible outcomes in respect of those assumptions and significant judgements made to determine the carrying value of onerous contracts could result in either a material increase or decrease in the value of onerous contract provisions in the next financial year. The extent to which actual results differ from estimates made at the reporting date depends on the combined outcome and timing of a large number of variables associated with performance across multiple contracts.

The individual provisions are discounted where the impact is assessed to be significant. Discount rates used are calculated based on the estimated risk-free rate of interest for the region in which the provision is located and matched against the ageing profile of the provision.

During the year, the Group's existing OCPs have continued to be utilised with the closing balance being significantly lower than at the prior year-end. The Group does not expect to enter into new OCPs, however given the nature of the Group's operations, there is an inherent risk that a contract can become onerous. The Group operates a large number of long-term contracts at different phases of their contract life cycle. Within the Group's portfolio, there are a small number of contracts where the balance of risks and opportunities indicates that they might be onerous if transformation initiatives or contract changes are not successful. The Group has concluded that these contracts do not require an onerous contract provision on an individual basis. Following the individual contract reviews, the Group has also undertaken a top down assessment which assumes that, whilst the contracts may not be onerous on an individual basis, as a portfolio there is a risk that at least some of the transformation programmes or customer negotiations required to avoid a contract loss, will not be fully successful, and it is more likely than not that one or more of these contracts will be onerous. Therefore, in considering the Group's overall onerous contract provision, the Group has made a best estimate of the provision required to take into consideration this portfolio risk. As a result, the risk of OCPs and the monitoring of individual contracts for indicators remains a critical estimate for the Group. The amount recognised in the year is £6.2m at the Trading Profit level within the Corporate costs segment, which after this charge is therefore £51.7m (2018: £40.1m).

Impairment of assets

Identifying whether there are indicators of impairment for assets involves a high level of judgement and a good understanding of the drivers of value behind the asset. At each reporting period an assessment is performed in order to determine whether there are any such indicators, which involves considering the performance of our business and any significant changes to the markets in which we operate.

We seek to mitigate the risk associated with this judgement by putting in place processes and guidance for the finance community and internal review procedures.

Determining whether assets with impairment indicators require an actual impairment involves an estimation of the expected value in use of the asset (or CGU to which the asset relates). The value in use calculation involves an estimation of future cash flows and also the selection of appropriate discount rates, both of which involve considerable judgement. The future cash flows are derived from approved forecasts, with the key assumptions being revenue growth, margins and cash conversion rates. Discount rates are calculated with reference to the specific risks associated with the assets and are based on advice provided by external experts. Our calculation of discount rates are performed based on a risk-free rate of interest appropriate to the geographic location of the cash flows related to the asset being tested, which is subsequently adjusted to factor in local market risks and risks specific to Serco and the asset itself. Discount rates used for internal purposes are post tax rates, however for the purpose of impairment testing in accordance with IAS36 *Impairment of Assets* we calculate a pre tax rate based on post tax targets.

A key area of focus in recent years has been in the impairment testing of goodwill as a result of the pressure on the results of the Group. However, no impairment of goodwill was noted in the year ended 31 December 2019.

Current tax

Liabilities for tax contingencies require management judgement and estimates in respect of tax audits and also tax exposures in each of the jurisdictions in which we operate. Management is also required to make an estimate of the current tax liability together with an assessment of the temporary differences that arise as a consequence of different accounting and tax treatments. Key judgement areas include the correct allocation of profits and losses between the countries in which we operate and the pricing of intercompany services. Where management conclude that a tax position is uncertain, a current tax liability is held for anticipated taxes that are considered probable based on the current information available.

These liabilities can be built up over a long period of time but the ultimate resolution of tax exposures usually occurs at a point in time, and given the inherent uncertainties in assessing the outcomes of these exposures, these estimates are prone to change in future periods. It is not currently possible to estimate the timing of potential cash outflow, but on resolution, to the extent this differs from the liability held, this will be reflected through the tax charge/(credit) which could be material for that period to the extent that the outcomes differ from the current estimates. Each potential liability and contingency is revisited on an annual basis and adjusted to reflect any changes in positions taken by the Company, local tax audits, the expiry of the statute of limitations following the passage of time and any change in the broader tax environment.

Retirement benefit obligations

Identifying whether the Group has a retirement benefit obligation as a result of contractual arrangements entered into requires a level of judgement, largely driven by the legal position held between the Group, the customer and the relevant pension scheme. The Group's retirement benefit obligations and other pension scheme arrangements are covered in note 31.

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, mortality rates, inflation rates and future contribution rates.

In accounting for the defined benefit schemes, the Group has applied the following principles:

- The asset recognised for the Serco Pension and Life Assurance Scheme is equal to the full surplus that will ultimately be available to the Group as a future refund.
- No foreign exchange item is shown in the disclosures as the non UK liabilities are not material.
- No pension assets are invested in the Group's own financial instruments or property.
- Pension annuity assets are remeasured to fair value at each reporting date based on the share of the defined benefit obligation covered by the insurance contract.

Notes to the Consolidated Financial Statements continued

3. Critical accounting judgements and key sources of estimation uncertainty continued

Critical accounting judgements

Use of Alternative Performance Measures: Operating profit before exceptional items

IAS1 requires material items to be disclosed separately in a way that enables users to assess the quality of a company's profitability. In practice, these are commonly referred to as 'exceptional' items, but this is not a concept defined by IFRS and therefore, there is a level of judgement involved in arriving at an Alternative Performance Measure which excludes such exceptional items. We consider items which are material and outside of the normal operating practice of the company to be suitable for separate presentation. There is a level of judgement required in determining which items are exceptional on a consistent basis and require separate disclosure. Further details can be seen in note 10.

The segmental analysis of operations in note 4 includes the additional performance measure of Trading Profit on operations which is reconciled to reported operating profit in that note. The Group uses Trading Profit as an alternative measure to reported operating profit by making several adjustments. Firstly, Trading Profit excludes exceptional items, being those management consider material and outside of the normal operating practice of the Group to be suitable of separate presentation and detailed explanation. Secondly, amortisation and impairment of intangibles arising on acquisitions are excluded, because these charges are based on judgments about the value and economic life of assets that, in the case of items such as customer relationships, would not be capitalised in normal operating practice. The CODM reviews the segmental analysis for operations.

Investigation by the Serious Fraud Office

On 4 July 2019, Serco Geografix Ltd, a wholly owned subsidiary, received judicial approval of a Deferred Prosecution Agreement (DPA) with the UK Serious Fraud Office (SFO). This ruling concludes the SFO's investigation into Serco companies announced in November 2013. As part of the DPA, the Group has paid a fine of £19.2m during the year and also paid SFO investigation costs of £3.7m. As at the end of 2019, this is no longer a critical accounting judgement.

Claim for losses in respect of the 2013 share price reduction

The Group has received a claim seeking damages for alleged losses following the reduction in Serco's share price in 2013. The merit, likely outcome and potential impact on the group of any such litigation that either has been or might potentially be brought against the group is subject to a number of significant uncertainties and, therefore, it is not possible to assess the quantum of any such litigation as at the date of this disclosure. Given the uncertainties associated with this claim, it has been disclosed as a contingent liability in note 29.

Deferred tax

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits. Recognition has been based on forecast future taxable profits.

Further details on taxes are disclosed in note 16.

4. Segmental information

The Group's operating segments reflecting the information reported to the Board in 2019 under IFRS8 *Operating Segments* are as set out below.

Reportable segments	Operating segments
UK & Europe	Services for sectors including Citizen Services, Defence, Health, Justice & Immigration and Transport delivered to UK Government, UK devolved authorities and other public sector customers in the UK and Europe
Americas	Services for sectors including Citizen Services, Defence and Transport delivered to US federal and civilian agencies, selected state and municipal governments and the Canadian Government
AsPac	Services for sectors including Citizen Services, Defence, Health, Justice & Immigration and Transport in the Asia Pacific region including Australia, New Zealand and Hong Kong
Middle East	Services for sectors including Defence, Health and Transport in the Middle East region
Corporate	Central and head office costs

Each operating segment is focused on a narrow group of customers in a specific geographic region and is run by a local management team which reports directly to the CODM on a regular basis. As a result of this focus, the sectors in each region have similar economic characteristics and are aggregated at the operating segment level in these financial statements.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2.

Information about major customers

The Group has four major governmental customers which each represent more than 5% of Group revenues. The customers' revenues were £1,043.3m (2018: £1,113.1m) for the UK Government within the UK & Europe segment, £734.9m (2018: £522.8m) for the US Government within the Americas segment, £597.5m (2018: £498.7m) for the Australian Government within the AsPac segment and £255.5m (2018: £232.9m) for the Government of the United Arab Emirates within the Middle East segment.

The following is an analysis of the Group's revenue, results, assets and liabilities by reportable segment:

Year ended 31 December 2019	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	1,361.7	915.7	621.4	349.6	–	3,248.4
Result						
Trading profit/(loss) from operations*	48.2	91.7	31.2	13.9	(51.6)	133.4
Amortisation and impairment of intangibles arising on acquisition	(1.2)	(6.2)	(0.1)	–	–	(7.5)
Operating profit/(loss) before exceptional items	47.0	85.5	31.1	13.9	(51.6)	125.9
Other exceptional operating items**	(24.8)	15.3	(3.0)	–	(10.9)	(23.4)
Operating profit/(loss)	22.2	100.8	28.1	13.9	(62.5)	102.5
Investment revenue						2.7
Finance costs						(24.5)
Profit before tax						80.7
Tax charge						(27.4)
Tax on exceptional items						(2.7)
Profit for the year from operations						50.6

* Trading profit/(loss) is defined as operating profit/(loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.

** Exceptional restructuring costs incurred by the Corporate segment are not allocated to other segments. Such items may represent costs that will benefit the wider business.

Year ended 31 December 2019	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	27.3	–	0.2	–	–	27.5
Depreciation of property, plant and equipment	(37.3)	(17.4)	(9.0)	(4.7)	(6.0)	(74.4)
Impairment of property, plant and equipment	(18.9)	–	–	–	–	(18.9)
Total depreciation and impairment of property, plant and equipment	(56.2)	(17.4)	(9.0)	(4.7)	(6.0)	(93.3)
Amortisation of intangible assets arising on acquisition	(1.2)	(6.2)	(0.1)	–	–	(7.5)
Amortisation of other intangible assets	(0.3)	(1.2)	(4.8)	(0.4)	(11.4)	(18.1)
Total amortisation and impairment of intangible assets	(1.5)	(7.4)	(4.9)	(0.4)	(11.4)	(25.6)
Segment assets						
Interests in joint ventures and associates	22.4	–	0.8	0.4	–	23.6
Other segment assets***	645.4	756.3	227.3	132.0	131.6	1,892.6
Total segment assets	667.8	756.3	228.1	132.4	131.6	1,916.2
Unallocated assets						163.2
Consolidated total assets						2,079.4
Segment liabilities						
Segment liabilities**/****	(536.3)	(232.8)	(151.8)	(103.0)	(160.3)	(1,184.2)
Unallocated liabilities						(352.3)
Consolidated total liabilities						(1,536.5)

*** The Corporate segment assets and liabilities include balance sheet items which provide benefit to the wider Group, including defined benefit pension schemes and corporate intangible assets.

**** Following the adoption of IFRS16 Leases all recognised lease liabilities are included within segment liabilities. Previously, finance lease liabilities were considered to be unallocated liabilities.

Notes to the Consolidated Financial Statements continued

4. Segmental information continued

Year ended 31 December 2018	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Revenue	1,300.7	645.6	548.2	342.3	–	2,836.8
Result						
Trading profit/(loss) from operations*	51.6	43.2	40.5	21.5	(40.1)	116.7
Amortisation and impairment of intangibles arising on acquisition	(0.5)	(3.2)	(0.6)	–	–	(4.3)
Operating profit/(loss) before exceptional items	51.1	40.0	39.9	21.5	(40.1)	112.4
Exceptional loss on disposal of subsidiaries and operations	(0.5)	–	–	–	–	(0.5)
Other exceptional operating items**	(11.0)	(2.8)	(4.5)	–	(13.1)	(31.4)
Operating profit/(loss)	39.6	37.2	35.4	21.5	(53.2)	80.5
Investment revenue						4.3
Finance costs						(18.2)
Other gains						7.5
Profit before tax						74.1
Tax charge						(8.8)
Tax on exceptional items						2.1
Profit for the year from operations						67.4

* Trading profit/(loss) is defined as operating profit/(loss) before exceptional items and amortisation and impairment of intangible assets arising on acquisition.

** Exceptional restructuring costs incurred by the Corporate segment are not allocated to other segments. Such items may represent costs that will benefit the wider business.

Year ended 31 December 2018	UK&E £m	Americas £m	AsPac £m	Middle East £m	Corporate £m	Total £m
Supplementary information						
Share of profits in joint ventures and associates, net of interest and tax	28.6	–	0.2	–	–	28.8
Depreciation of property, plant and equipment	(11.4)	(3.3)	(2.5)	(0.7)	(1.6)	(19.5)
Impairment of property, plant and equipment	(0.7)	–	–	–	–	(0.7)
Total depreciation and impairment of property, plant and equipment	(12.1)	(3.3)	(2.5)	(0.7)	(1.6)	(20.2)
Amortisation of intangible assets arising on acquisition	(0.5)	(3.2)	(0.6)	–	–	(4.3)
Amortisation of other intangible assets	(0.4)	(1.5)	(4.9)	(0.3)	(11.5)	(18.6)
Exceptional impairment of other intangible assets	(0.1)	–	–	–	–	(0.1)
Total amortisation and impairment of intangible assets	(1.0)	(4.7)	(5.5)	(0.3)	(11.5)	(23.0)
Segment assets						
Interests in joint ventures and associates	19.6	–	0.6	0.4	–	20.6
Other segment assets***	487.6	426.4	222.1	123.4	135.0	1,394.5
Total segment assets	507.2	426.4	222.7	123.8	135.0	1,415.1
Unallocated assets						138.5
Consolidated total assets						1,553.6
Segment liabilities						
Segment liabilities***	(339.4)	(130.3)	(152.1)	(93.6)	(142.8)	(858.2)
Unallocated liabilities						(308.6)
Consolidated total liabilities						(1,166.8)

*** The Corporate segment assets and liabilities include balance sheet items which provide benefit to the wider Group, including defined benefit pension schemes and corporate intangible assets.

5. List of principal undertakings

The following are considered to be the principal undertakings of the Group as at the year end:

Principal subsidiaries		2019	2018
United Kingdom	Serco Limited	100%	100%
Australia	Serco Australia Pty Limited	100%	100%
USA	Serco Inc.	100%	100%
Principal joint ventures and associates		2019	2018
United Kingdom	AWE Management Limited	24.5%	24.5%
United Kingdom	Merseyrail Services Holding Company Limited	50%	50%

A full list of subsidiaries and related undertakings is included in the Appendix on pages 234 to 236 which form part of the financial statements.

6. Joint ventures and associates

AWE Management Limited (AWEML) and Merseyrail Services Holding Company Limited (MSHCL) were the only equity accounted entities which were material to the Group during the year or prior year. Dividends of £17.6m (2018: £20.0m) and £7.8m (2018: £8.7m) respectively were received from these companies in the year.

Summarised financial information of AWEML and MSHCL and an aggregation of the other equity accounted entities in which the Group has an interest is as follows:

31 December 2019

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	1,065.4	177.9	350.0	44.6	394.6
Operating profit	95.4	18.9	32.7	1.1	33.8
Net investment revenue	0.8	0.2	0.3	–	0.3
Income tax charge	(18.8)	(3.8)	(6.4)	(0.2)	(6.6)
Profit from operations	77.4	15.3	26.6	0.9	27.5
Other comprehensive income	–	2.5	1.3	–	1.3
Total comprehensive income	77.4	17.8	27.9	0.9	28.8
Non current assets	510.0	23.2	136.6	2.4	139.0
Current assets	186.8	64.6	78.1	18.7	96.8
Current liabilities	(163.0)	(48.4)	(64.1)	(14.7)	(78.8)
Non current liabilities	(509.3)	(12.7)	(131.2)	(2.2)	(133.4)
Net assets	24.5	26.7	19.4	4.2	23.6
Proportion of group ownership	24.5%	50.0%	–	–	–
Carrying amount of investment	6.0	13.4	19.4	4.2	23.6

* Total results of the entity multiplied by the respective proportion of Group ownership.

Notes to the Consolidated Financial Statements continued

6. Joint ventures and associates continued

	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Cash and cash equivalents	101.3	39.9	44.8	7.4	52.2
Current financial liabilities excluding trade and other payables and provisions	(7.6)	(7.3)	(5.6)	(0.2)	(5.8)
Non current financial liabilities excluding trade and other payables and provisions	(0.1)	(12.5)	(6.3)	(2.3)	(8.6)
Depreciation and amortisation	–	(1.6)	(0.8)	(0.9)	(1.7)
Interest income	0.8	0.2	0.3	–	0.3

* Total results of the entity multiplied by the respective proportion of Group ownership.

The Group's share of liabilities within joint ventures is £212.2m. Of this, an amount of £124.8m relates to a defined benefit pension obligation, against which Serco is fully indemnified, and a further £69.6m is trade and other payables which arise as part of the day to day operations carried out by those entities. The Group has no material exposure to third party debt or other financing arrangements within any of its joint ventures and associates.

The financial statements of MSHCL are for a period which is different from that of the Group, being for the 52-week period ended 4 January 2020 (2018: 52-week period ended 5 January 2019). The 52-week period reflects the joint venture's internal reporting structure and is sufficiently close so as to not require adjustment to match that of the Group.

Certain employees of the groups headed by AWEML and MSHCL are members of sponsored defined benefit pension schemes. Given the significance of the schemes to understanding the position of the entities the following key disclosures are made:

Main assumptions: 2019	AWEML	MSHCL
Rate of salary increases (%)	2.1%	3.1%
Inflation assumption (CPI %)	2.1%	2.2%
Discount rate (%)	2.1%	2.1%
Post-retirement mortality:		
Current male industrial pensioners at 65 (years)	22.9	N/A
Future male industrial pensioners at 65 (years)	25.0	N/A

Retirement benefit funding position (100% of results)	£m	£m
Present value of scheme liabilities	(2,213.6)	(374.5)
Fair value of scheme assets	1,716.6	218.5
Net amount recognised	(497.0)	(156.0)
Members' share of deficit	–	62.4
Franchise adjustment*	–	93.6
Related asset, right to reimbursement	497.0	–
Net retirement benefit obligation	–	–

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

AWEML is not liable for any deficiency in the defined benefit pension scheme under current contractual arrangements. The deficit reflected in the financial statements of MSHCL covers only that portion of the deficit that is expected to be funded over the term of the franchise arrangement the entity operates under. In addition, the defined benefit position reflects an adjustment in respect of funding required to be provided by employees.

31 December 2018

Summarised financial information	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Revenue	1,024.7	160.8	331.5	43.6	375.1
Operating profit before exceptional items	100.4	17.1	33.2	1.4	34.6
Exceptional items	–	(0.6)	(0.3)	–	(0.3)
Operating profit	100.4	16.5	32.9	1.4	34.3
Net investment revenue	0.6	0.2	0.2	0.1	0.3
Income tax (charge)/credit	(18.6)	(3.3)	(6.2)	0.1	(6.1)
Profit from operations	82.4	13.4	26.9	1.6	28.5
Profit from operations before exceptional items	82.4	14.0	27.2	1.6	28.8
Other comprehensive income	–	4.1	2.0	–	2.0
Total comprehensive income	82.4	17.5	28.9	1.6	30.5
Non current assets	518.5	8.0	131.0	2.6	133.6
Current assets	210.1	45.7	74.3	15.4	89.7
Current liabilities	(190.6)	(28.0)	(60.7)	(12.5)	(73.2)
Non current liabilities	(517.6)	(0.8)	(127.2)	(2.3)	(129.5)
Net assets	20.4	24.9	17.4	3.2	20.6
Proportion of group ownership	24.5%	50.0%	–	–	–
Carrying amount of investment	5.0	12.4	17.4	3.2	20.6

* Total results of the entity multiplied by the respective proportion of Group ownership.

	AWEML (100% of results) £m	MSHCL (100% of results) £m	Group portion of material joint ventures and associates* £m	Group portion of other joint venture arrangements and associates* £m	Total £m
Cash and cash equivalents	98.1	34.3	41.2	5.1	46.3
Current financial liabilities excluding trade and other payables and provisions	(9.7)	(2.0)	(3.4)	(0.2)	(3.6)
Non current financial liabilities excluding trade and other payables and provisions	–	–	–	(2.3)	(2.3)
Depreciation and amortisation	–	(2.0)	(1.0)	(1.0)	(2.0)
Interest income	0.6	0.2	0.2	0.1	0.3

* Total results of the entity multiplied by the respective proportion of Group ownership.

In 2018, the cost associated with the Group's share of MSHCL's obligation in respect of the equalisation of guaranteed minimum pension (GMP) payments was recorded as exceptional to ensure consistent treatment across all defined benefit pension schemes the Group is liable for. There was no equivalent charge in 2019. More information is provided in note 10.

Notes to the Consolidated Financial Statements continued

6. Joint ventures and associates continued

Key disclosures with respect of the defined benefit pension schemes of material joint ventures and associates:

Main assumptions: 2018	AWEML	MSHCL
Rate of salary increases	2.2%	3.1%
Inflation assumption (CPI)	2.2%	2.2%
Discount rate	3.0%	2.9%
Post-retirement mortality:		
Current male industrial pensioners at 65 (years)	23.0	N/A
Future male industrial pensioners at 65 (years)	25.6	N/A

Retirement benefit funding position (100% of results)	AWEML £m	MSHCL (**restated) £m
Present value of scheme liabilities	(2,030.4)	(290.3)
Fair value of scheme assets	1,512.8	193.3
Net amount recognised	(517.6)	(97.0)
Members' share of deficit	–	38.8
Franchise adjustment*	–	58.2
Related asset, right to reimbursement	517.6	–
Net retirement benefit obligation	–	–

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

** An adjustment has been made to the relative amounts of the Members' share of deficit and the Franchise adjustment for MSHCL as at 31 December 2018. The amounts previously disclosed had been transposed meaning the Members' share of deficit was incorrectly disclosed as £58.2m and the Franchise adjustment was incorrectly disclosed as £38.8m.

AWEML is not liable for any deficiency in the defined benefit pension scheme under current contractual arrangements. The deficit reflected in the financial statements of MSHCL covers only that portion of the deficit that is expected to be funded over the term of the franchise arrangement the entity operates under. In addition, the defined benefit position reflects an adjustment in respect of funding required to be provided by employees.

7. Acquisitions

On 1 August 2019, the Group acquired the Naval Systems Business Unit and a small number of related contracting entities (collectively, "NSBU"), from Alion Science & Technology Corporation. Serco acquired the net assets of the business as well as the Alion Canada and Alion IPS legal entities. The acquired business contributed £109.8m of revenue and £7.2m of operating profit before exceptional items to the Group's results during the year to 31 December 2019. As a result of the acquisition, Alion Canada, now known as Serco Canada Marine, and Alion IPS are 100% owned indirect subsidiaries of Serco Group plc.

NSBU is a leading provider of naval design, systems engineering, as well as production and lifecycle support services to the US Navy, US Army and Royal Canadian Navy. The combined business will be a top tier supplier of services to the US Navy and increases our exposure to US Navy fleet expansion, which is one of the fastest-growing areas of public procurement. The US Navy has announced plans to increase the fleet from 280 to 355 ships by 2034, and we see a long-term and growing demand for the capabilities that the combination of Serco and NSBU will be able to provide.

The total annual revenue of NSBU in 2020 is expected to be around \$370m (£285m) and the estimated operating profit before exceptional items, including an appropriate allocation of charges for shared support services and fully allocated overheads, of around \$27m (£20m).

The total consideration payable in relation to the acquisition of NSBU was £186.3m.

	Fair value NSBU £m
Goodwill	115.3
Acquisition related intangible assets	52.6
Property, plant and equipment	3.6
Trade and other receivables	46.6
Cash and cash equivalents	0.4
Deferred tax asset	0.9
Trade and other payables	(30.7)
Deferred tax liability	(2.4)
Acquisition date fair value of consideration transferred	186.3
Satisfied by:	
Cash	184.3
Deferred consideration – working capital adjustment	2.0
Total consideration	186.3

The net cash outflow as a result of acquisitions made during the year was £197.9m made up of £184.3m consideration paid on the acquisition of NSBU, costs related to the acquisition of NSBU of £4.7m, consideration related to historic acquisitions of £9.3m and £0.4m of cash acquired.

Goodwill on the acquisition of NSBU represents the premium associated with taking over the operations which are considered to enhance Serco's ability to deliver in the growth areas of US Navy fleet expansion within our US Defence business. The acquisition is considered to be accretive to the Group's financial performance. Goodwill on the acquisition is deductible for tax purposes over fifteen years. Future US tax deductions will be available for £76.0m of acquired goodwill. The acquisition related intangible represents customer relationships which have been valued using our best estimate of forecast cash flows discounted to present value.

Based on estimates made of the full year impact of the acquisition of NSBU, had the acquisition taken place on 1 January 2019, Group revenue and operating profit before exceptional items for the period would have increased by approximately £153m and £10m respectively, taking total Group revenue to £3,401m and total Group operating profit before exceptional items to £136m.

The total impact of acquisitions to the Group's cash flow position in the period was as follows:

	£m
Net cash outflow on acquisition of NSBU	183.9
Deferred consideration paid in respect of historic acquisitions:	
Clarence Correctional Centre	8.0
Anglia Support Partnership	1.3
Net cash outflow arising in the year on acquisitions	193.2
Exceptional acquisition related costs – NSBU	4.7
Net cash impact in the year on acquisitions	197.9

Costs associated with the acquisition of NSBU which were not directly related to the issue of shares or arrangement of the acquisition facility are shown as exceptional costs in the Consolidated Income Statement for the year. The total acquisition-related costs recognised in exceptional items for the year ended 31 December 2019 was £4.7m.

8. Disposals

No disposals of businesses have been made during the year ended 31 December 2019.

Notes to the Consolidated Financial Statements continued

9. Revenue from contracts with customers

Revenue

Information regarding the Group's major customers and a segmental analysis of revenue is provided in note 4.

An analysis of the Group's revenue from its key market sectors, together with the timing of revenue recognition across the Group's revenue from contracts with customers, is as follows:

Year ended 31 December 2019	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	215.9	575.5	89.5	28.1	909.0
Justice & Immigration	311.9	–	279.6	–	591.5
Transport	143.5	99.7	19.7	215.3	478.2
Health	259.9	–	94.8	30.2	384.9
Citizen Services	430.5	240.5	137.8	76.0	884.8
	1,361.7	915.7	621.4	349.6	3,248.4
Timing of revenue recognition					
Revenue recognised from performance obligations satisfied in previous periods	3.3	–	(0.4)	–	2.9
Revenue recognised at a point in time	19.0	–	2.6	–	21.6
Products and services transferred over time	1,339.4	915.7	619.2	349.6	3,223.9
	1,361.7	915.7	621.4	349.6	3,248.4

Year ended 31 December 2018 (restated*)	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Key sectors					
Defence	213.5	337.6	56.2	40.8	648.1
Justice & Immigration	269.8	–	271.4	–	541.2
Transport	141.6	90.2	18.3	204.6	454.7
Health	232.4	–	96.4	28.5	357.3
Citizen Services	443.4	217.8	105.9	68.4	835.5
	1,300.7	645.6	548.2	342.3	2,836.8
Timing of revenue recognition					
Revenue recognised from performance obligations satisfied in previous periods	1.6	–	3.2	–	4.8
Revenue recognised at a point in time	38.9	–	1.8	–	40.7
Products and services transferred over time	1,260.2	645.6	543.2	342.3	2,791.3
	1,300.7	645.6	548.2	342.3	2,836.8

* The prior period balances have been restated to ensure consistent application of the sector definitions used for the current period. The change has no impact to the income statement or the balance sheet of the Group

Transaction price allocated to remaining performance obligations

The following table shows the transaction price allocated to remaining performance obligations. This represents revenue expected to be recognised in subsequent periods arising on existing contractual arrangements. The Group has not taken the practical expedient in IFRS15.121 not to disclose information about performance obligations that have original expected durations of one year or less and therefore no consideration from contracts with customers is excluded from the amounts included below. Forecast variable revenue is included only to the extent that it is measurable and highly probable that a significant reversal will not occur.

	UK&E £m	Americas £m	AsPac £m	Middle East £m	Total £m
Within 1 year (2020)	1,149.4	592.9	559.6	297.3	2,599.2
Between 2 – 5 years (2021 – 2024)	3,507.8	173.1	1,097.6	294.9	5,073.4
5 years and beyond (2025+)	4,648.5	–	1,571.7	173.5	6,393.7
	9,305.7	766.0	3,228.9	765.7	14,066.3

10. Exceptional items

Exceptional items are items of financial performance that are outside normal operations and are material to the results of the Group either by virtue of size or nature. As such, the items set out below require separate disclosure on the face of the income statement to assist in the understanding of the underlying performance of the Group.

For the year ended 31 December	2019 £m	2018 £m
Exceptional items arising		
Exceptional loss on disposal of subsidiaries and operations	–	(0.5)
Other exceptional operating items		
Restructuring costs	(12.8)	(32.3)
Increase in onerous lease provision	–	(1.8)
Costs associated with SFO investigation	(25.2)	0.4
Reversal of impairment of interest in joint venture and related loan balances	–	0.8
Reversal of impairment on loan balances	–	13.9
Cost of Guaranteed Minimum Pension equalisation	–	(9.6)
Release of/(increase in) other provisions and other items	19.3	(2.8)
Cost associated with the acquisition of NSBU	(4.7)	–
Other exceptional operating items	(23.4)	(31.4)
Exceptional operating items	(23.4)	(31.9)
Exceptional finance income	–	7.5
Exceptional tax	(2.7)	2.1
Total operating and financing exceptional items net of tax	(26.1)	(22.3)

Exceptional loss on disposals

There were no material disposals of operations in 2019 (2018: none).

Other exceptional operating items

The Group is incurring costs in relation to restructuring programmes resulting from the Strategy Review. These costs include redundancy payments, provisions (including onerous leases), external advisory fees and other incremental costs. Due to the nature and scale of the impact of the transformation phase of the Strategy Review, the incremental costs associated with this programme are considered to be exceptional. Costs associated with the restructuring programme resulting from the Strategy Review must meet the following criteria: that they are directly linked to the implementation of the Strategy Review; they are incremental costs as a result of the activity; and they are non business as usual costs. In 2019, a charge of £12.8m (2018: £32.3m) arose in relation to the restructuring programme resulting from the Strategy Review. The Strategy Review is discussed in more detail in the Strategic Report on pages 20 to 21. The transformation activities associated with this are complete and, as such, all exceptional restructuring costs related to this programme have ended in 2019. Non-exceptional restructuring charges are incurred by the business as part of normal operational activity, which in the year totalled £8.9m (2018: £6.3m) and were included within operating profit before exceptional items.

There was an exceptional charge totalling £25.2m (2018: credit of £0.4m) associated with the SFO's investigation and the programme of Corporate Renewal. These costs have historically been treated as exceptional and consistent treatment is applied in 2019. During the year, the Group paid £22.9m in penalties and legal costs associated with the SFO's investigation. The final judgement was provided on 4 July 2019. The credit in 2018 reflects the recovery of costs from the Group's insurance providers. The remaining £2.3m relates to legal costs incurred by the Group in respect of the investigation.

In 2018, an exceptional charge of £9.6m was recorded to recognise the Group's obligations associated with equalising the Guaranteed Minimum Pension (GMP) payments between male and female employees for the Group's defined benefit pension schemes following a High Court ruling made in October 2018. The Serco Pension and Life Assurance Scheme (SPLAS) recorded the largest charge being £9.0m. There was no equivalent charge in 2019.

The decrease in other provisions and other items of £19.3m (2018: increase of £2.8m) predominantly relates to a commercial dispute which was settled in 2019. The treatment of the reduction as exceptional is consistent with the recognition of the original charge associated with the same legal matter in 2014.

The Group completed the acquisition of the Naval Systems Business Unit (NSBU) from Alion Science and Technology in 2019. The acquisition achieved final regulatory approvals and completed in August 2019. The transaction and implementation costs of £4.7m have been treated as exceptional costs in line with the Group's accounting policy.

Notes to the Consolidated Financial Statements continued

10. Exceptional items continued

An exceptional profit of £13.9m was recognised in 2018 for the settlement of consideration associated with the sale of Serco GmbH in 2012 through the offsetting of outstanding loan balances, the receivable of which had been impaired. An exceptional loss on disposal of £27.7m was recorded in 2012 in respect of the sale. No such transactions took place in 2019.

Exceptional finance costs

There were no exceptional finance costs in the year ended 31 December 2019. During 2018, part of the consideration for the sale of the Group's private sector BPO business in 2015, was a loan note with a face value of £30m accruing compound interest of 7%. The receivable associated with this loan note was recorded at a fair value of £19.5m. The discount on the loan note had been unwinding through the Group's net finance cost on an annual basis. During October 2018, the Intelenet business was sold and therefore repayment of the loan note was triggered resulting in a gain of £7.5m. As this gain was outside the normal financing arrangements of the Group and significant in size it was recorded as exceptional finance income.

Exceptional tax

Exceptional tax for the year was a charge of £2.7m (2018: £2.1m credit) which arises on exceptional items within operating profit. This charge arises mainly in connection with the decrease in provisions in respect of commercial disputes and legal claims for which a tax credit had been recorded when the provisions were originally recognised. This charge is offset by tax deductions in respect of the global restructuring programme and in the US on acquisition costs.

No tax credit arises on the exceptional charge associated with the costs in connection with the SFO investigation.

11. Operating profit

Operating profit is stated after charging/(crediting):

Year ended 31 December	2019 £m	2018 £m
Research and development costs	0.6	0.6
(Profit)/loss on disposal of property, plant and equipment	(0.6)	0.5
Profit on early termination of leases	(0.9)	–
Loss on disposal of intangible assets	0.4	1.5
Depreciation and impairment of leased assets	75.6	6.8
Depreciation and impairment of owned property, plant and equipment	17.7	13.4
Amortisation and impairment of intangible assets – arising on acquisition	7.5	4.3
Amortisation, write down and impairment of intangible assets – other	18.1	18.7
Exceptional net loss on disposal of subsidiaries and operations (note 10)	–	0.5
Staff costs (note 12)	1,573.6	1,453.4
Allowance for doubtful debts charged/(credited) to income statement	2.9	(1.0)
Net foreign exchange charge	1.1	0.4
Movement on non-designated hedges and reclassified cash flow hedges	(0.2)	0.2
Lease payments recognised through operating profit*	5.5	152.2
Operating lease income from sub-leases	(1.6)	(1.7)

* The lease payments recognised in operating profit during the year ended 31 December 2019 are those which have not been recorded in accordance with IFRS16 Leases due to their status as either short-term or low value.

Depreciation and impairment on leased assets has increased during the year due to the application of IFRS16 Leases resulting in additional right of use assets being recognised within property, plant and equipment.

Amounts payable by the Company and its subsidiary undertakings in respect of audit and non-audit services to the Company's Auditor are shown below.

Year ended 31 December	2019 £m	2018 £m
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	1.6	1.0
Fees payable to the Company's Auditor and their associates for other services to the Group: – audit of the Company's subsidiaries pursuant to legislation	0.3	0.2
Total audit fees	1.9	1.2
– Audit-related assurance services	0.2	0.1
– Other services	–	0.1
Total non-audit fees	0.2	0.2

Fees payable to the Company's Auditor for non-audit services to the Company are not required to be disclosed separately because the consolidated financial statements are required to disclose such fees on a consolidated basis.

Details of the Company's policy on the use of auditors for non-audit services and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report on page 116. No services were provided pursuant to contingent fee arrangements.

12. Staff costs

The average number of persons employed by the Group (including Executive Directors) was:

Year ended 31 December	2019 Number	2018 Number
UK & Europe	21,626	20,307
Americas	6,795	6,091
AsPac	10,441	8,851
Middle East	4,340	4,185
Unallocated	727	950
	43,929	40,384

The average number of persons employed includes all permanent employees and those with fixed term contracts. It excludes self-employed contractors and other casual workers.

Aggregate remuneration of all employees based on the average number of employees reported above was:

Year ended 31 December	2019 £m	2018 £m
Wages and salaries	1,384.2	1,251.7
Social security costs	103.0	95.3
Other pension costs (note 31)	74.8	91.7
	1,562.0	1,438.7
Share based payment expense (note 35)	11.6	14.7
	1,573.6	1,453.4

13. Investment revenue

Year ended 31 December	2019 £m	2018 £m
Interest receivable on other loans and deposits	0.5	2.3
Net interest receivable on retirement benefit obligations (note 31)	2.1	0.8
Movement in discount on other debtors	0.1	1.2
	2.7	4.3

14. Finance costs

Year ended 31 December	2019 £m	2018 £m
Interest payable on lease liabilities	6.9	0.6
Interest payable on other loans	13.9	13.8
Facility fees and other charges	1.7	3.1
Movement in discount on provisions	1.2	0.5
	23.7	18.0
Foreign exchange on financing activities	0.8	0.2
	24.5	18.2

Notes to the Consolidated Financial Statements continued

15. Tax

15 (a) Income tax recognised in the income statement

Year ended 31 December	Before exceptional items 2019 £m	Exceptional items 2019 £m	Total 2019 £m	Before exceptional items 2018 £m	Exceptional items 2018 £m	Total 2018 £m
Current income tax						
Current income tax charge/(credit)	22.7	(1.1)	21.6	23.6	(1.4)	22.2
Adjustments in respect of prior years	(0.2)	–	(0.2)	(0.9)	–	(0.9)
Deferred tax						
Current year charge/(credit)	4.7	3.8	8.5	(13.8)	(0.7)	(14.5)
Adjustments in respect of prior years	0.2	–	0.2	(0.1)	–	(0.1)
	27.4	2.7	30.1	8.8	(2.1)	6.7

The tax expense for the year can be reconciled to the profit in the consolidated income statement as follows:

Year ended 31 December	Before exceptional items 2019 £m	Exceptional items 2019 £m	Total 2019 £m	Before exceptional items 2018 £m	Exceptional items 2018 £m	Total 2018 £m
Profit before tax	104.1	(23.4)	80.7	98.5	(24.4)	74.1
Tax calculated at a rate of 19.00% (2018: 19.00%)	19.7	(4.4)	15.3	18.7	(4.6)	14.1
Expenses not deductible for tax purposes*	0.9	4.4	5.3	5.3	–	5.3
UK unprovided deferred tax**	3.5	2.1	5.6	(7.5)	3.5	(4.0)
Other unprovided deferred tax	3.0	–	3.0	2.5	–	2.5
Effect of the use of unrecognised tax losses	–	–	–	(0.3)	–	(0.3)
Impact of changes in statutory tax rates on current income tax	(0.2)	–	(0.2)	1.7	–	1.7
Overseas rate differences	5.9	0.6	6.5	7.3	(0.7)	6.6
Statutory tax benefits	(0.2)	–	(0.2)	–	–	–
Other non taxable income	(3.1)	–	(3.1)	(2.5)	(0.4)	(2.9)
Adjustments in respect of prior years	–	–	–	(1.0)	–	(1.0)
Adjustments in respect of deferred tax on pensions	3.0	–	3.0	(10.1)	–	(10.1)
Adjustments in respect of equity accounted investments	(5.1)	–	(5.1)	(5.3)	0.1	(5.2)
Tax charge	27.4	2.7	30.1	8.8	(2.1)	6.7

* Relates to costs that are not allowable for tax deduction under local tax law

** Arises due to timing differences between when an amount is recognised in the income statement and when the amount is subject to UK tax. In the current year, the Group has received tax credits for amounts which have been charged to the income statement in previous periods in connection with items such as fixed assets. Additional tax credit is recognised in relation to brought forward losses as shown in the deferred tax note below. UK unprovided deferred tax in relation to exceptional items relates to amounts which have been charged to the income statement in the current period for which no tax credit has yet been taken, for items such as restructuring costs.

The income tax charge for the year is based on the UK statutory rate of corporation tax for the period of 19.00% (2018: 19.00%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

15 (b) Income tax recognised in the SOCI

Year ended 31 December	2019 £m	2018 £m
Current tax		
Taken to retirement benefit obligations reserve	–	–
Deferred tax		
Relating to cash flow hedges	0.1	–
Taken to retirement benefit obligations reserve	2.7	(9.2)
	2.8	(9.2)

16. Deferred tax

Deferred income taxes are calculated in full on temporary differences under the liability method using local substantively enacted tax rates.

The movement in net deferred tax assets during the year was as follows:

	2019 £m	2018 £m
At 1 January – asset	(39.5)	(39.3)
IFRS16 restatement	(5.1)	–
Opening asset restated	(44.6)	(39.3)
Income statement charge/(credit)	8.7	(14.7)
Items recognised in equity and in other comprehensive income	(2.8)	9.2
Arising on acquisition	1.5	2.3
Exchange differences	–	3.0
At 31 December – asset	(37.2)	(39.5)

The movement in deferred tax assets and liabilities during the year was as follows:

	Temporary differences on assets/intangibles £m	Share-based payment and employee benefits £m	Retirement benefit schemes £m	OCPs £m	Derivative financial instruments £m	Tax losses £m	Other temporary differences £m	Total £m
At 1 January 2019	24.6	(13.7)	9.9	(7.4)	–	(20.6)	(32.3)	(39.5)
IFRS16 restatement	(5.1)	–	–	–	–	–	–	(5.1)
Opening asset restated	19.5	(13.7)	9.9	(7.4)	–	(20.6)	(32.3)	(44.6)
Charged/(credited) to income statement (note 15a)	4.1	(1.6)	(0.4)	5.4	–	(0.4)	1.6	8.7
Items recognised in equity and in other comprehensive income (note 15b)	–	–	(2.7)	–	(0.1)	–	–	(2.8)
Arising on acquisition	2.4	(0.9)	–	–	–	–	–	1.5
Exchange differences	(1.6)	0.6	–	0.1	0.1	–	0.8	–
At 31 December 2019	24.4	(15.6)	6.8	(1.9)	–	(21.0)	(29.9)	(37.2)

Of the amount credited to the income statement, £nil (2018: credit of £0.1m) has been taken to cost of sales in respect of the R&D Expenditure credit.

The movement in deferred tax assets and liabilities during the previous year was as follows:

	Temporary differences on assets/intangibles £m	Share-based payment and employee benefits £m	Retirement benefit schemes £m	OCPs £m	Tax losses £m	Other temporary differences £m	Total £m
At 1 January 2018	25.8	(12.2)	2.5	(7.9)	(18.7)	(28.8)	(39.3)
(Credited)/charged to income statement (note 15a)	(4.7)	(1.8)	(1.7)	0.8	(1.9)	(5.4)	(14.7)
Items recognised in equity and in other comprehensive income (note 15b)	–	–	9.2	–	–	–	9.2
Arising on acquisition	2.3	–	–	–	–	–	2.3
Exchange differences	1.2	0.3	(0.1)	(0.3)	–	1.9	3.0
At 31 December 2018	24.6	(13.7)	9.9	(7.4)	(20.6)	(32.3)	(39.5)

Notes to the Consolidated Financial Statements continued

16. Deferred tax continued

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2019 £m	2018 £m
Deferred tax liabilities	26.7	21.4
Deferred tax assets	(63.9)	(60.9)
	(37.2)	(39.5)

As at the balance sheet date, the UK has a potential deferred tax asset of £180.8m (2018: £168.8m) available for offset against future profits. A deferred tax asset has currently been recognised of £21.1m (2018: £20.3m). Recognition has been based on forecast future taxable profits. No deferred tax asset has been recognised in respect of the remaining asset (net £159.7m) based on current forecasts; additional asset recognition is contingent on further improvement in the UK profit forecast. Measures enacted during 2016 cut the future tax rate from April 2020 from 19% to 17%. These measures will reduce the Group's future current tax charge accordingly. The deferred tax balance at 31 December 2019 has been calculated reflecting the reduced rate.

Losses of £0.1m (2018: £0.2m) expire within five years, losses of £0.1m (2018: £0.1m) expire within 6–10 years, losses of £0.7m (2018: £0.7m) expire within 20 years and losses of £1,063.9m (2018: £1,015.2m) may be carried forward indefinitely.

17. Earnings per share

Basic and diluted earnings per ordinary share (EPS) have been calculated in accordance with IAS33 *Earnings per Share*.

The calculation of the basic and diluted EPS is based on the following data:

	2019 Millions	2018 Millions
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	1,171.4	1,094.4
Effect of dilutive potential ordinary shares: Share options	27.6	31.0
Weighted average number of ordinary shares for the purpose of diluted EPS	1,199.0	1,125.4

At 31 December 2019 no options over shares (2018: 145,238 shares) were excluded from the weighted average number of shares used for calculating diluted earnings per share in accordance with IFRS2 *Share Based Payment* because their exercise price was above the average share price for the year and they were, therefore, anti-dilutive.

Earnings per share

	Earnings 2019 £m	Per share amount 2019 pence	Earnings 2018 £m	Per share amount 2018 pence
Basic EPS				
Earnings for the purpose of basic EPS	50.4	4.31	67.4	6.16
Effect of dilutive potential ordinary shares	–	(0.10)	–	(0.17)
Diluted EPS	50.4	4.21	67.4	5.99
Basic EPS excluding exceptional items				
Earnings for the purpose of basic EPS	50.4	4.31	67.4	6.16
Add back exceptional items	23.4	2.00	24.4	2.23
Add back tax on exceptional items	2.7	0.23	(2.1)	(0.19)
Earnings excluding exceptional items for the purpose of basic EPS	76.5	6.54	89.7	8.20
Effect of dilutive potential ordinary shares	–	(0.15)	–	(0.23)
Excluding exceptional items, diluted	76.5	6.39	89.7	7.97

18. Goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2018	878.0	(326.7)	551.3
Exchange differences	24.4	(12.9)	11.5
Acquisitions	16.8	–	16.8
At 1 January 2019	919.2	(339.6)	579.6
Exchange differences	(31.5)	7.8	(23.7)
Acquisitions	115.3	–	115.3
At 31 December 2019	1,003.0	(331.8)	671.2

Movements in the balance since the prior year end can be seen as follows:

	Goodwill balance 1 January 2019 £m	Additions 2019 £m	Exchange differences 2019 £m	Impairment 2019 £m	Goodwill balance 31 December 2019 £m	Headroom on impairment analysis 2019 £m	Headroom on impairment analysis 2018 £m
UK & Europe	184.3	–	(1.1)	–	183.2	799.2	593.6
Americas	278.9	115.3	(18.1)	–	376.1	420.3	159.4
AsPac	105.9	–	(4.2)	–	101.7	162.7	307.8
Middle East	10.5	–	(0.3)	–	10.2	63.3	57.9
	579.6	115.3	(23.7)	–	671.2	1,445.5	1,118.7

Included above is the detail of the headroom on the CGUs existing at the year end which reflects where future discounted cash flows are greater than the underlying assets and includes all relevant cash flows, including where provisions have been made for future costs and losses. The increase in headroom compared to 2018 is predominantly due to a reduction in discount rates in 2019 and additionally from higher forecast cashflows partially offset by an increase in underlying assets.

The key assumptions applied in the impairment review are set out below:

	Discount rate 2019 %	Discount rate 2018 %	Terminal growth rate 2019 %	Terminal growth rate 2018 %
UK & Europe	9.4	10.0	1.7	2.0
Americas	10.4	10.6	2.2	2.4
AsPac	9.7	10.0	2.3	2.4
Middle East	11.9	11.8	1.8	2.5

Discount rate

Pre-tax discount rates derived from the Group's post-tax weighted average cost of capital have been used in discounting the projected cash flows. These rates are reviewed annually with external advisers and are adjusted for risks specific to the market in which the CGU operates.

Notes to the Consolidated Financial Statements continued

18. Goodwill continued

Short-term growth rates

The annual impairment test is performed immediately prior to the year end, based initially on five-year cash flow forecasts approved by senior management. Short-term revenue growth rates used in each CGU's five-year plan are based on internal data regarding our current contracted position, the pipeline of opportunities and forecast growth for the relevant market.

Short-term profitability and cash conversion is based on our historic experiences and a level of judgement is applied to expected changes in both. Where businesses have been poor performers in recent history, turnaround has only been assumed where a detailed and achievable plan is in place and all forecasts include cash flows relating to contracts where onerous contract provisions have been made.

Terminal growth rates

The calculations include a terminal value based on the projections for the fifth year of the short-term plan, with a growth rate assumption applied which extrapolates the business into perpetuity. The terminal growth rates are based on long-term inflation rates of the geographic market in which the CGUs operate and therefore do not exceed the average long-term growth rates forecast for the individual markets. These are provided by external sources.

Sensitivity analysis

Sensitivity analysis has been performed for each key assumption, a 1% movement in discount rates and a 1% movement in terminal growth rates are considered to be reasonably possible. No impairment results from these changes being made to the key assumptions either individually or in combination.

In the CGU with the lowest and most sensitive headroom, a reduction in short term growth rates of approximately 50% would be required to reduce the headroom to nil.

19. Other intangible assets

	Acquisition related		Other		Total £m
	Customer relationships £m	Licences and franchises £m	Software and IT £m	Internally generated development expenditure £m	
Cost					
At 1 January 2019	51.7	0.2	123.1	56.7	231.7
Arising on acquisition	52.6	–	–	–	52.6
Additions - internal development	–	–	1.8	0.4	2.2
Additions - external	–	–	4.6	–	4.6
Disposals	–	–	(4.7)	–	(4.7)
Reclassification from/(to) other intangible asset categories	–	(0.2)	0.1	0.1	–
Exchange differences	(5.2)	–	(1.3)	(0.3)	(6.8)
At 31 December 2019	99.1	–	123.6	56.9	279.6
Accumulated amortisation and impairment					
At 1 January 2019	32.2	0.1	82.8	49.3	164.4
Amortisation charge – internal development	–	–	9.1	5.3	14.4
Amortisation charge – external	7.4	0.1	3.7	–	11.2
Disposals	–	–	(4.3)	–	(4.3)
Reclassification from/(to) other intangible asset categories	–	(0.2)	0.2	–	–
Exchange differences	(1.2)	–	(1.1)	(0.3)	(2.6)
At 31 December 2019	38.4	–	90.4	54.3	183.1
Net book value					
At 31 December 2019	60.7	–	33.2	2.6	96.5

	Acquisition related		Other		Total £m
	Customer relationships £m	Licences and franchises £m	Software and IT £m	Internally generated development expenditure £m	
Cost					
At 1 January 2018	65.1	0.2	122.8	56.6	244.7
Arising on acquisition	16.7	–	–	–	16.7
Eliminated on disposal	(3.9)	–	(7.0)	–	(10.9)
Additions - internal development	–	–	6.5	–	6.5
Additions - external	–	–	2.4	–	2.4
Disposals	(27.7)	–	(5.0)	–	(32.7)
Reclassification from property, plant and equipment	–	–	3.4	–	3.4
Exchange differences	1.5	–	–	0.1	1.6
At 31 December 2018	51.7	0.2	123.1	56.7	231.7
Accumulated amortisation and impairment					
At 1 January 2018	58.5	0.1	75.8	43.6	178.0
Brought forward reclassification	–	–	1.2	–	1.2
Eliminated on disposal	(3.9)	–	(7.0)	–	(10.9)
Impairment charge	–	–	0.1	–	0.1
Amortisation charge – internal development	–	–	10.8	5.6	16.4
Amortisation charge – external	4.3	–	2.2	–	6.5
Disposals	(27.7)	–	(3.0)	–	(30.7)
Reclassification from property, plant and equipment	–	–	2.4	–	2.4
Exchange differences	1.0	–	0.3	0.1	1.4
At 31 December 2018	32.2	0.1	82.8	49.3	164.4
Net book value					
At 31 December 2018	19.5	0.1	40.3	7.4	67.3

Included in Software and IT and other internally generated development expenditure is an amount of £nil (2018: £3.6m) in respect of leased intangibles.

Customer relationships are amortised over the average length of contracts acquired. The Group is carrying £60.7m (2018: £19.5m) in relation to Customer relationships. Amortisation of intangibles arising on acquisition consists of amortisation in relation to Customer relationships and Licences and franchises and totals £7.5m (2018: £4.3m).

The net book value of internally generated intangible assets as at 31 December 2019 was approximately £2.6m (2018: £7.4m) in development expenditure and £20.7m (2018: £28.0m) in software and IT.

Notes to the Consolidated Financial Statements continued

20. Property, plant and equipment

	Freehold land and buildings Owned £m	Freehold land and buildings Leased £m	Short-leasehold assets Owned £m	Machinery, motor vehicles Owned £m	Machinery, motor vehicles Leased £m	Total £m
Cost						
At 1 January 2019	4.3	0.3	30.3	96.1	77.6	208.6
Opening adjustment – IFRS16 (note 2)	–	171.0	–	–	41.2	212.2
Arising on acquisition	–	–	2.3	1.3	–	3.6
Additions	0.1	264.5	3.3	14.1	39.8	321.8
Reclassification from/(to) PPE category	0.2	(0.2)	0.5	27.7	(28.2)	–
Disposals	–	(6.2)	(2.0)	(9.4)	(2.3)	(19.9)
Exchange differences	–	(5.2)	(0.8)	(1.5)	(1.5)	(9.0)
At 31 December 2019	4.6	424.2	33.6	128.3	126.6	717.3
Accumulated depreciation and impairment						
At 1 January 2019	2.7	0.2	19.5	64.2	57.2	143.8
Opening adjustment – IFRS16 (note 2)	–	93.0	–	–	15.0	108.0
Charge for the year – impairment	–	–	0.1	2.3	16.5	18.9
Charge for the year – depreciation	0.1	40.8	3.3	11.9	18.3	74.4
Reclassification from/(to) PPE category	0.2	(0.2)	–	27.2	(27.2)	–
Disposals	–	(4.1)	(1.9)	(9.1)	(2.1)	(17.2)
Exchange differences	–	(1.4)	(0.3)	(1.0)	(0.5)	(3.2)
At 31 December 2019	3.0	128.3	20.7	95.5	77.2	324.7
Net book value						
At 31 December 2019	1.6	295.9	12.9	32.8	49.4	392.6

The impairment charge for the year includes £16.5m of impairment charged against right of use assets arising in the year on newly entered into leases on onerous contracts.

	Freehold land and buildings Owned £m	Freehold land and buildings Leased £m	Short-leasehold assets Owned £m	Machinery, motor vehicles Owned £m	Machinery, motor vehicles Leased £m	Total £m
Cost						
At 1 January 2018	4.3	0.3	30.3	100.6	85.8	221.3
Arising on acquisition	–	–	0.1	0.1	–	0.2
Eliminated on disposal	–	–	–	(1.9)	–	(1.9)
Additions	–	–	6.5	19.9	3.6	30.0
Reclassification from/(to) PPE category	–	–	–	7.3	(7.3)	–
Reclassification to other intangible assets	–	–	–	(2.5)	(0.9)	(3.4)
Disposals	–	–	(7.2)	(27.6)	(3.6)	(38.4)
Exchange differences	–	–	0.6	0.2	–	0.8
At 31 December 2018	4.3	0.3	30.3	96.1	77.6	208.6
Accumulated depreciation and impairment						
At 1 January 2018	2.5	0.2	23.8	71.1	62.4	160.0
Brought forward reclassification	–	–	–	0.3	–	0.3
Eliminated on disposal	–	–	–	(1.9)	–	(1.9)
Charge for the year – impairment	–	–	–	0.7	–	0.7
Charge for the year – depreciation	0.2	–	2.6	9.9	6.8	19.5
Reclassification from/(to) PPE category	–	–	–	7.5	(7.5)	–
Reclassification to other intangible assets	–	–	–	(1.4)	(1.0)	(2.4)
Disposals	–	–	(7.0)	(22.1)	(3.5)	(32.6)
Exchange differences	–	–	0.1	0.1	–	0.2
At 31 December 2018	2.7	0.2	19.5	64.2	57.2	143.8
Net book value						
At 31 December 2018	1.6	0.1	10.8	31.9	20.4	64.8

21. Inventories

	2019 £m	2018 £m
Service spares	15.2	14.9
Parts awaiting installation	3.1	2.7
Work in progress	–	5.3
	18.3	22.9

22. Contract assets, trade and other receivables

	2019 £m	2018 £m
Contract assets: Current		
Accrued income and other unbilled receivables	270.5	222.2
Capitalised bid costs	3.8	4.9
Capitalised mobilisation and phase in costs	19.2	17.2
	293.5	244.3

The Group's balance sheet includes capitalised bid and phase in costs that are realised as a part of the normal operating cycle of the Group. These assets represent up-front investment in contracts which are recoverable and expected to provide benefits over the life of those contracts. Bid costs are capitalised only when they relate directly to a contract and are incremental to securing the contract. Any costs which would have been incurred whether or not the contract is actually won are not considered to be capitalised bid costs.

Contract costs can only be capitalised when the expenditure meets all three criteria identified in note 2.

Movements in the period were as follows:

	2019 £m	2018 £m
Capitalised bid and phase in costs		
At 1 January	22.1	25.1
Additions	7.1	3.9
Amortisation	(6.7)	(5.5)
Reclassified from/(to) contract asset	0.9	(1.2)
Exchange differences	(0.4)	(0.2)
At 31 December	23.0	22.1

Total trade and other receivables held by the Group at 31 December 2019 amount to £342.2m (2018: £329.8m).

	2019 £m	2018 £m
Trade and other receivables: Non current		
Other investments	9.4	9.9
Other receivables	17.1	20.4
	26.5	30.3

	2019 £m	2018 £m
Trade and other receivables: Current		
Trade receivables	251.0	227.1
Prepayments	41.3	51.2
Amounts owed by joint ventures and associates	0.6	0.7
Security deposits	0.2	0.2
Other receivables	22.6	20.3
	315.7	299.5

The Group cancelled its receivables financing facility during December 2019 (facility at 31 December 2018, all of which was unused: £30.0m).

Notes to the Consolidated Financial Statements continued

22. Contract assets, trade and other receivables continued

The management of trade receivables is the responsibility of the operating segments, although they report to Group on a monthly basis on debtor days, debtor ageing and significant outstanding debts. The average credit period taken by customers is 28 days (2018: 29 days) and no interest was charged on overdue amounts in the current or prior reporting period.

Each customer has an external credit score which determines the level of credit provided. However, the majority of our customers have a sovereign credit rating as a result of being government organisations. Of the trade receivables balance at the end of the year, £51.8m is due from agencies of the UK Government, the Group's largest customer, £51.0m from the Australian Government, £49.9m from the Government of the United Arab Emirates and £34.0m from the US Government. There are no other customers who represent more than 5% of the total balance of trade receivables. Of the trade receivables balance at the end of 2018, £88.7m was due from agencies of the UK Government. The maximum exposure to credit risk in relation to trade receivables at the reporting date is the fair value of trade receivables. The Group does not hold any collateral as security.

The total amount of bad debt provision for the Group was £5.5m as at 31 December 2019 (2018: £2.8m). The Group does not have any material impairments associated with expected credit losses. Impairments to trade receivables are based on specific estimated irrecoverable amounts and provisions on outstanding balances greater than a year old unless there is firm evidence that the balance is recoverable.

Ageing of trade receivables	2019 £m	2018 £m
Not due	185.5	168.2
Overdue by less than 30 days	43.7	35.2
Overdue by between 30 and 60 days	6.4	9.6
Overdue by more than 60 days	20.9	16.9
Allowance for doubtful debts	(5.5)	(2.8)
	251.0	227.1

Of the total overdue trade receivable balance, 70% (2018: 87%) relates to the Group's four major governmental customers (being the governments of the UK, US, Australia and the United Arab Emirates).

Movements on the Group allowance for doubtful debts	2019 £m	2018 £m
At 1 January	2.8	3.6
Net charges and releases to income statement	2.9	(1.0)
Utilised	(0.1)	0.2
Exchange differences	(0.1)	–
At 31 December	5.5	2.8

Included in the current other receivables balance is a further £1.0m (2018: £5.6m) due from agencies of the UK Government.

23. Cash and cash equivalents

	Sterling 2019 £m	Other currencies 2019 £m	Total 2019 £m	Sterling 2018 £m	Other currencies 2018 £m	Total 2018 £m
Customer advance payments*	–	0.2	0.2	–	1.0	1.0
Other cash and short-term deposits	33.3	56.0	89.3	38.7	22.8	61.5
Total cash and cash equivalents	33.3	56.2	89.5	38.7	23.8	62.5

* Customer advance payments totalling £0.2m (2018: £1.0m) are encumbered cash balances.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

24. Contract liabilities, trade and other payables

	2019 £m	2018 £m
Contract liabilities: Current		
Deferred income	66.8	74.3
Contract liabilities: Non current		
Deferred income	58.2	86.6

The allocation of deferred income between current and non-current is presented on the basis that the current portion will unwind in the following twelve months through revenue. There are no material items in the current portion of deferred income in 2018 which did not unwind during the year.

Total trade and other payables held by the Group at 31 December 2019 amount to £503.5m (2018: £443.0m).

	2019 £m	2018 £m
Trade and other payables: Current		
Trade payables	100.8	67.4
Other payables	93.4	89.6
Accruals	294.8	262.7
	489.0	419.7

The average credit period taken for trade purchases is 36 days (2018: 30 days).

	2019 £m	2018 £m
Trade and other payables: Non current		
Other payables	14.5	23.3

25. Lease obligations

	Minimum lease payments 2019 £m	Minimum lease payments 2018 £m
Amounts payable under leases		
Within one year	93.3	6.1
Between one and five years	226.5	8.6
After five years	69.7	0.9
	389.5	15.6
Less: future finance charges	(19.6)	(0.8)
Present value of lease obligations	369.9	14.8
Less: amount due for settlement within one year (shown within current liabilities)	(84.6)	(5.7)
Amount due for settlement after one year	285.3	9.1

On 1 January 2019, the Group implemented IFRS16 Leases, replacing IAS17 Leases. In applying the modified retrospective approach to transition, comparative financial information has not been restated. As a result, the amounts shown as being payable under leases in the table above as at 31 December 2018 represent amounts payable on leases that were classified as finance leases in accordance with IAS17.

The Directors estimate that the fair value of the Group's lease obligations approximates their carrying amount. The Group uses leases in the delivery of its contractual obligations and the services required to support the delivery of those contracts, including administrative functions. There are no material future cash flows relating to leases in place as at 31 December 2019 that are not reflected in the minimum lease payments disclosed above and the Group does not have any leases to which it is contracted but which are not yet reflected in the minimum lease payments.

No lease liability is recognised in respect of leases which have a lease term of less than twelve months in duration at the point of entering into the lease, or where the purchase price of the underlying right of use asset is less than £5,000.

Notes to the Consolidated Financial Statements continued

26. Loans

	Total 2019 £m	Total 2018 £m
Loans are repayable as follows:		
On demand or within one year	56.1	21.9
Between one and two years	93.9	6.4
Between two and five years	155.0	159.5
After five years	–	51.7
	305.0	239.5
Less: amount due for settlement within one year (shown within current liabilities)	(56.1)	(21.9)
Amount due for settlement after one year	248.9	217.6

Included within amounts repayable within one year is £50.0m (2018: nil) related to the draw down on the revolving credit facility. These amounts have individual maturity dates within one year, although the amounts are renewable under the terms of the facility which will remain in place until December 2023. See note 23 for cash balances available.

	Carrying amount 2019 £m	Fair value 2019 £m	Carrying amount 2018 £m	Fair value 2018 £m
Other loans	305.0	304.9	239.5	229.9
	305.0	304.9	239.5	229.9

The fair values are based on cash flows discounted using a market rate appropriate to the loan. All loans are held at amortised cost.

Analysis of net debt

The analysis below provides a reconciliation between the opening and closing positions in the balance sheet for liabilities arising from financing activities together with movements in derivatives relating to the items included in Net Debt. There were no changes in fair value noted in either the current or prior year.

	At 1 January 2019 £m	Opening adjustment – IFRS16** £m	Cash flow £m	Acquisitions* £m	Exchange differences £m	Non cash movements £m	At 31 December 2019 £m
Loans payable	(239.5)	–	(72.3)	–	6.7	0.1	(305.0)
Lease obligations	(14.8)	(129.1)	70.2	–	4.7	(300.9)	(369.9)
Liabilities arising from financing activities	(254.3)	(129.1)	(2.1)	–	11.4	(300.8)	(674.9)
Cash and cash equivalents	62.5	–	28.4	0.4	(1.8)	–	89.5
Derivatives relating to Net Debt	3.8	–	–	–	(2.8)	–	1.0
Net Debt	(188.0)	(129.1)	26.3	0.4	6.8	(300.8)	(584.4)

* Acquisitions represent the net cash/(debt) acquired on acquisition.

** The opening Net Debt balance has been adjusted to include lease liabilities recognised on the adoption of IFRS16 Leases.

	At 1 January 2018 £m	Cash flow £m	Acquisitions* £m	Exchange differences £m	Non cash movements £m	At 31 December 2018 £m
Loans payable	(271.5)	33.3	–	(12.9)	11.6	(239.5)
Lease obligations	(20.2)	8.7	–	0.1	(3.4)	(14.8)
Liabilities arising from financing activities	(291.7)	42.0	–	(12.8)	8.2	(254.3)
Cash and cash equivalents	112.1	(50.4)	1.2	(0.4)	–	62.5
Loan receivables	25.7	(37.4)	–	–	11.7	–
Derivatives relating to Net Debt	12.8	–	–	(9.0)	–	3.8
Net Debt	(141.1)	(45.8)	1.2	(22.2)	19.9	(188.0)

* Acquisitions represent the net cash/(debt) acquired on acquisition.

27. Provisions

	Employee related £m	Property £m	Contract £m	Other £m	Total £m
At 1 January 2019	59.5	12.4	82.1	85.4	239.4
Opening adjustment – IFRS16 (note 2)	–	0.8	(13.3)	–	(12.5)
Charged to income statement – exceptional	0.4	–	–	–	0.4
Charged to income statement – other	18.2	2.1	10.6	12.9	43.8
Released to income statement – exceptional	(0.3)	–	–	(19.1)	(19.4)
Released to income statement – other	(1.1)	(1.9)	(9.6)	(4.8)	(17.4)
Utilised during the year	(12.4)	(1.1)	(53.6)	(4.0)	(71.1)
Unwinding of discount	–	1.1	0.2	–	1.3
Exchange differences	(2.2)	(0.1)	0.1	(0.5)	(2.7)
At 31 December 2019	62.1	13.3	16.5	69.9	161.8
Analysed as:					
Current	8.7	6.7	15.9	27.1	58.4
Non-current	53.4	6.6	0.6	42.8	103.4
	62.1	13.3	16.5	69.9	161.8

Contract provisions relate to onerous contracts which will be utilised over the life of each individual contract. The present value of the estimated future cash outflow required to settle the contract obligations as they fall due over the respective contracts has been used in determining the provision. The individual provisions are discounted where the impact is assessed to be significant. Discount rates used are calculated based on the estimated risk free rate of interest for the region in which the provision is located and matched against the ageing profile of the provision. In 2019, the release from OCPs is reflective of the Group's ability to forecast the final years of contracts which are nearing completion. Additional charges of £10.6m (2018: £3.4m) have been made in respect of future losses on new and existing onerous contract provisions to reflect the updated forecasts as settlements are agreed and contracts near completion. The additional charges represent certain operational issues and the associated risks which arise as a result.

The Group operates a large number of long-term contracts at different phases of their contract life cycle. Within the Group's portfolio, there are a small number of contracts where the balance of risks and opportunities indicates that they might be onerous if transformation initiatives or contract changes are not successful. The Group has concluded that these contracts do not require an onerous contract provision on an individual basis. Following the individual contract reviews, the Group has also undertaken a top down assessment which assumes that, whilst the contracts may not be onerous on an individual basis, as a portfolio there is a risk that at least some of the transformation programmes or customer negotiations required to avoid a contract loss, will not be fully successful, and it is more likely than not that one or more of these contracts will be onerous. Therefore, in considering the Group's overall onerous contract provision, the Group has made a best estimate of the provision required to take into consideration this portfolio risk. As a result, the risk of OCPs and the monitoring of individual contracts for indicators remains a critical estimate for the Group. The amount recognised in the year is £6.2m at the Trading Profit level within the Corporate costs segment, which after this charge is therefore £51.7m (2018: £40.1m).

A full analysis is performed at least annually of the future profitability of all contracts with marginal performances and of the balance sheet items directly linked to these contracts.

Due to the significant size of the balance and the inherent level of uncertainty over the amount and timing of the related cash flows upon which onerous contract provisions are based, if the expected operational performance varies from the best estimates made at the year end, a material change in estimate may be required. The key drivers behind operational performance is the level of activity required to be serviced, which is often directed by the actions of the UK Government, and the efficiency of Group employees and resources.

Employee related provisions are for long-term service awards and terminal gratuity liabilities which have been accrued and are based on contractual entitlement, together with an estimate of the probabilities that employees will stay until rewards fall due and receive all relevant amounts. There are also amounts included in relation to restructuring. The provisions will be utilised over various periods driven by local legal or regulatory requirements, the timing of which is not certain.

The majority of property provisions relate to leased properties and are associated with the requirement to return properties to either their original condition, or to enact specific improvement activities in advance of exiting the lease. Dilapidations associated with leased properties are held as a provision until such time as they fall due, with the longest running lease ending in April 2039.

Notes to the Consolidated Financial Statements continued

27. Provisions continued

Other provisions are held for indemnities given on disposed businesses, legal and other costs that the Group expects to incur over an extended period, in respect of past events. These costs are based on past experience of similar items and other known factors and represent management's best estimate of the likely outcome and will be utilised with reference to the specific facts and circumstances. The timing of utilisation is dependent on future events which could occur within the next 12 months or over a longer period with the majority expected to be settled by 31 March 2023. The exceptional release has been recorded in respect of a commercial dispute which was settled in 2019. The treatment as exceptional is consistent with the recognition of the original charge associated with the same matter in 2014.

28. Capital and other commitments

Capital expenditure contracted but not provided	2019 £m	2018 £m
Property, plant and equipment	21.0	0.8
Intangible assets	0.8	0.9

29. Contingent liabilities

The Company has guaranteed overdrafts, finance leases, and bonding facilities of its joint ventures and associates up to a maximum value of £4.3m (2018: £4.3m). The actual commitment outstanding at 31 December 2019 was £4.3m (2018: £4.3m).

The Company and its subsidiaries have provided certain guarantees and indemnities in respect of performance and other bonds, issued by its banks on its behalf in the ordinary course of business. The total commitment outstanding as at 31 December 2019 was £257.5m (2018: £225.3m).

The Group has received a claim seeking damages for alleged losses following the reduction in Serco's share price in 2013. The merit, likely outcome and potential impact on the group of any such litigation that either has been or might potentially be brought against the group is subject to a number of significant uncertainties and, therefore, it is not possible to reliably assess the quantum of any such litigation as at the date of this disclosure.

The Group is also aware of other claims and potential claims which involve or may involve legal proceedings against the Group although the timing of settlement of these claims remains uncertain. The Directors are of the opinion, having regard to legal advice received and the Group's insurance arrangements, that it is unlikely that these matters will, in aggregate, have a material effect on the Group's financial position.

30. Financial risk management

30 (a) Fair value of financial instruments

i) Hierarchy of fair value

The classification of the fair value measurement falls into three levels, based on the degree to which the fair value is observable. The levels are as follows:

Level 1: Inputs derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable inputs for the asset or liability.

Based on the above, the derivative financial instruments held by the Group at 31 December 2019 and the comparison fair values for loans and finance leases, are all considered to fall into Level 2. Market prices are sourced from Bloomberg and third party valuations. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. There have been no transfers between levels in the year.

The Group held the following financial instruments which fall within the scope of IFRS9 *Financial Instruments* at 31 December:

	Carrying amount (measurement basis)			Comparison fair value		
	Amortised cost 2019 £m	Fair value – Level 2 2019 £m	Level 2 2019 £m	Amortised cost 2018 £m	Fair value – Level 2 2018 £m	Level 2 2018 £m
Financial assets						
Financial assets – current						
Cash and bank balances	89.5	–	89.5	62.5	–	62.5
Derivatives designated as FVTPL						
Forward foreign exchange contracts	–	2.9	–	–	2.4	–
Derivative instruments in designated hedge accounting relationships						
Cross currency swaps	–	–	–	–	5.1	–
Forward foreign exchange contracts	–	0.1	–	–	0.2	–
Receivables						
Trade receivables (note 22)	251.0	–	251.0	227.1	–	227.1
Security deposits (note 22)	0.2	–	0.2	0.2	–	0.2
Amounts owed by joint ventures and associates (note 22)	0.6	–	0.6	0.7	–	0.7
Financial assets – non current						
Derivative instruments in designated hedge accounting relationships						
Forward foreign exchange contracts	–	–	–	–	0.1	–
Receivables						
Other investments (note 22)	9.4	–	9.4	9.9	–	9.9
Financial liabilities – current						
Derivatives designated as FVTPL						
Forward foreign exchange contracts	–	(1.8)	–	–	(3.7)	–
Derivative instruments in designated hedge accounting relationships						
Forward foreign exchange contracts	–	(0.1)	–	–	–	–
Financial liabilities at amortised cost						
Trade payables (note 24)	(100.8)	–	(100.8)	(67.4)	–	(67.4)
Loans (note 26)	(56.1)	–	(56.1)	(21.9)	–	(21.6)
Obligations under finance leases – in accordance with IAS17 <i>Leases</i> (note 25)	–	–	–	(5.7)	–	(5.7)
Obligations under leases – in accordance with IFRS16 <i>Leases</i> (note 25)	(84.6)	–	(84.6)	–	–	–
Financial liabilities – non current						
Financial liabilities at amortised cost						
Loans (note 26)	(248.9)	–	(248.8)	(217.6)	–	(208.3)
Obligations under finance leases – in accordance with IAS17 <i>Leases</i> (note 25)	–	–	–	(9.1)	–	(9.1)
Obligations under leases – in accordance with IFRS16 <i>Leases</i> (note 25)	(285.3)	–	(285.3)	–	–	–

The Directors estimate that the carrying amounts of cash, trade receivables and trade payables approximate to their fair value due to the short-term maturity of these instruments.

The fair values of loans and finance lease obligations are based on cash flows discounted using a rate based on the borrowing rate associated with the liability.

The fair value of derivatives is calculated using a discounted cash flow approach applying discount factors derived from observable market data to actual and estimated future cash flows. Credit risk is considered in the calculation of these fair values.

Notes to the Consolidated Financial Statements continued

30. Financial risk management continued

ii) Fair value of derivative financial instruments

The fair valuation of derivative financial instruments results in a net asset of £1.1m (2018: net asset of £4.1m) comprising non-current assets of £nil (2018: £0.1m), current assets of £3.0m (2018: £7.7m), current liabilities of £1.9m (2018: £3.7m) and non-current liabilities of £nil (2018: £nil).

	1 January 2019 £m	Movement in fair value of derivatives designated in hedge accounting relationships £m	Movement in fair value of derivatives not designated in hedge accounting relationships £m	31 December 2019 £m
Currency swaps	5.1	(5.1)	–	–
Forward foreign exchange contracts	(1.0)	–	2.1	1.1
	4.1	(5.1)	2.1	1.1

	1 January 2018 £m	Movement in fair value of derivatives designated in hedge accounting relationships £m	Movement in fair value of derivatives not designated in hedge accounting relationships £m	31 December 2018 £m
Currency swaps	9.3	(4.2)	–	5.1
Forward foreign exchange contracts	3.5	(4.5)	–	(1.0)
	12.8	(8.7)	–	4.1

The fair value of financial liabilities recognised at fair value through profit and loss is £1.8m (2018: £3.7m) and relates to derivatives that are not designated in hedge accounting relationships. The fair value of the derivatives and their credit risk adjusted fair value are not materially different and are approximately equal to the amount contractually payable at maturity due to the short tenure of the instruments.

30 (b) Financial risk

The Board is ultimately responsible for ensuring that financial and non-financial risks are monitored and managed within acceptable and known parameters. The Board delegates authority to the executive team to manage financial risks. The Group's treasury function acts as a service centre and operates within clearly defined guidelines and policies that are approved by the Board. The guidelines and policies define the financial risks to be managed, specify the objectives in managing these risks, delegate responsibilities to those managing the risks and establish a control framework to regulate treasury activities to minimise operational risk.

30 (c) Liquidity risk

i) Credit facilities

The Group maintains committed credit facilities to ensure that it has sufficient liquidity to maintain its ongoing operations. As at 31 December, the Group's committed bank credit facilities and corresponding borrowings were as follows:

	Currency	Amount 2019 £m	Drawn 2019 £m	Utilised for bonding facility 2019 £m	Total facility available 2019 £m
Syndicated revolving credit facility	Sterling	250.0	50.0	–	200.0
Term loan facility	Sterling	45.0	45.0	–	–

	Currency	Amount 2018 £m	Drawn 2018 £m	Utilised for bonding facility 2018 £m	Total facility available 2018 £m
Syndicated revolving credit facility	Sterling	250.0	–	–	250.0

In May 2019, the Group entered into a new £45m term loan facility in order to fund the purchase of Naval Systems Business Unit. The facility matures in August 2022.

In December 2018 the Group entered into a £250m revolving credit facility with a maturity date of December 2023.

In addition to the banking facilities, the Group has outstanding US private placements of £213.0m (2018: £242.2m) which will be repaid as bullet repayments between 2020 and 2024.

During 2019 the Group cancelled its £30.0m receivables financing facility (2018: £30.0m of which £nil was drawn at 31 December 2018).

ii) Maturity of financial liabilities

The Group's financial liabilities will be settled on both a net and a gross basis over the remaining period between the balance sheet date and the contractual maturity date. The amounts disclosed below are the contractual undiscounted cash flows based on the earliest date on which the Group can be required to pay.

Following the adoption of IFRS16 Leases from 1 January 2019, liabilities associated with all leases are recognised within financial liabilities. Leases which would have been previously classified as finance leases in accordance with IAS17 Leases had a total lease liability at 31 December 2019 of £8.9m which is included in the lease liability below.

	On demand or within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
At 31 December 2019					
Trade payables (note 24)	100.8	–	–	–	100.8
Obligations under leases (note 25)	84.6	75.2	142.9	67.2	369.9
Loans* (note 26)	56.1	93.9	157.9	–	307.9
Future loan interest	12.3	10.7	12.5	–	35.5
Derivatives settled on gross basis:					
Outflow	407.6	–	–	–	407.6
Inflow	(398.2)	–	–	–	(398.2)
	263.2	179.8	313.3	67.2	823.5

* Loans are stated gross of capitalised finance costs.

	On demand or within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
At 31 December 2018					
Trade payables (note 24)	67.4	–	–	–	67.4
Obligations under finance leases (note 25)	5.7	2.9	5.3	0.9	14.8
Loans* (note 26)	21.9	6.4	162.1	51.8	242.2
Future loan interest	12.6	11.6	20.5	1.3	46.0
Derivatives settled on gross basis:					
Outflow	467.5	–	–	–	467.5
Inflow	(471.8)	–	–	–	(471.8)
	103.3	20.9	187.9	54.0	366.1

* Loans are stated gross of capitalised finance costs.

Gross cash flows in the table above relating to forward foreign exchange contracts total £398.2m (inflow) and £407.6m (outflow) on demand or within one year and £nil (inflow) and £nil (outflow) between one and two years (2018: £448.6m (inflow) and £449.8m (outflow) on demand or within one year and £nil (inflow) and £nil (outflow) between one and two years).

Notes to the Consolidated Financial Statements continued

30. Financial risk management continued

30 (d) Foreign exchange risk

i) Transactional

It is the Group's policy to hedge material transactional exposures using forward foreign exchange contracts to fix the functional currency value of non-functional currency cash flows. At 31 December 2019, there were no material unhedged non-functional currency monetary assets or liabilities, firm commitments or highly probable forecast transactions.

ii) Translational

Where possible the Group will raise external funding to match the currency profile of its foreign operations, in order to mitigate translation exposure. If matched funding is not possible, currency derivatives may be used to protect against movements in foreign exchange.

iii) Hedge accounting

For the purposes of hedge accounting, hedges are classified as either of fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Details of the Group's accounting policies in relation to derivatives qualifying for hedge accounting under IFRS9 can be seen in note 2.

At 31 December 2018, the Group held cross currency swaps designated as cash flow hedges against \$28.5m of the US Dollar private placements. Fixed interest cash flows denominated in US Dollars are exchanged for fixed interest cash flows denominated in Sterling. The cross currency swaps matured in October 2019 when the corresponding private placement notes were repaid.

The profile of these cross-currency swaps held by the Group in the current and prior year is as follows:

Maturity	2019 Receivable			2018 Receivable		
	Notional amount US Dollar m	US Dollar interest rate %	Payable Sterling interest rate %	Notional amount US Dollar m	US Dollar interest rate %	Payable Sterling interest rate %
October 2019	–	–	–	28.5	3.8	4.1

The Group also held a number of forward foreign exchange contracts designated as cash flow hedges. These derivatives are hedging highly probable forecast foreign currency trade payments in the UK business. The net notional amounts are summarised by currency below:

	2019 £m	2018 £m
Sterling	(3.3)	(8.8)
US Dollar	0.3	1.7
Indian Rupee	3.0	7.7

All derivatives designated as cash flow hedges are highly effective and as at 31 December 2019 a net fair value gain of £0.1m (2018: £0.1m) has been deferred in the hedging reserve. During the course of the year to 31 December 2019, £nil (2018: £0.6m) of fair value gains were transferred to the hedging reserve and £0.1m (2018: £0.1m) reclassified to the consolidated income statement.

The Group has previously designated a portion of the USD denominated private placement notes payable as a hedging instrument against movements in the value of the assets and liabilities of Serco North America (Holdings), Inc. All loans payable are recorded at amortised cost, and movements in value due to foreign exchange in the portion designated as hedging instruments were taken to reserves. Following the acquisition of Naval Systems Business Unit in 2019, the private placement notes are not effective as a net investment hedge of the assets and liabilities of Serco North America (Holdings), Inc. As a result, movements in the value of the private placement notes due to foreign exchange are reported in the income statement. The Group's strategy is to utilise natural offsets that exist within the Group to minimise the net movement in the income statement due to foreign exchange. The value of loans used in the hedging relationship at 31 December 2018 was £194.3m.

iv) Currency sensitivity

The Group's currency exposures in respect of monetary items at 31 December 2019 that result in net currency gains and losses in the income statement and equity arise principally from movement in US Dollar and Euro exchange rates. The impact of a 10% movement is summarised below:

	Pre-tax profits gain/(loss) 2019 £m	Equity gain/ (loss) 2019 £m	Pre-tax profits gain/(loss) 2018 £m	Equity gain/ (loss) 2018 £m
US Dollar	0.8	–	–	(0.1)
Euro	0.1	–	0.1	–
Indian Rupee	–	(0.3)	–	(0.8)
	0.9	(0.3)	0.1	(0.9)

30 (e) Interest rate risk

The Group's policy is to minimise the impact of interest rate volatility on earnings to provide an appropriate level of certainty to cost of funds. Exposure to interest rate risk arises principally on changes to US Dollar and Sterling interest rates.

i) Interest rate management

An analysis of financial assets and liabilities exposed to interest rate risk is set out below:

	Floating rate 2019 £m	Fixed rate 2019 £m	Weighted average interest rate 2019 %	Floating rate 2018 £m	Fixed rate 2018 £m	Weighted average interest rate 2018 %
Financial assets						
Cash and cash equivalents	89.5	–	–	62.5	–	–
	Floating rate 2019 £m	Fixed rate 2019 £m	Weighted average interest rate 2019 %	Floating rate 2018 £m	Fixed rate 2018 £m	Weighted average interest rate 2018 %
Financial liabilities						
US Dollar loans	–	213.0	5.3	–	242.2	5.2
Other loans	95.0	–	2.1	–	–	–
	95.0	213.0	4.3	–	242.2	5.2

Exposure to interest rate fluctuations is mitigated through the issuance of fixed rate debt and the use of interest rate derivatives. Excluded from the above analysis is £369.9m (2018: £14.8m) of amounts payable under leases, which are subject to fixed rates of interest.

ii) Interest rate sensitivity

The effect of a 100 basis point increase in LIBOR rates on the net financial liability position excluding leases at the balance sheet date, with all other variables held constant, would have resulted in a decrease in pre-tax profit for the year to 31 December 2019 of £0.1m (2018: decrease of £0.2m).

Notes to the Consolidated Financial Statements_{continued}

30. Financial risk management_{continued}

30 (f) Credit risk

The Group's principal financial assets are cash and cash equivalents, contract assets and trade and other receivables.

Credit risk is the risk that a counterparty could default on its contractual obligations. In this regard, the Group's principal exposure is to cash and cash equivalents, derivative transactions and trade receivables.

The Group's contract asset and trade receivables credit risk is relatively low given that a high proportion of our customer base are Government bodies with strong sovereign, or sovereign like, credit ratings. However, where the assessed credit worthiness of a customer, Government or non-government, falls below that considered acceptable, appropriate measures are taken to mitigate against the risk of contractual default using instruments such as credit guarantees.

The Group has not recorded any impairments related to contract assets or trade and other receivables relating to credit risk during the year ended 31 December 2019 (2018: none).

The Group's treasury function only transacts with counterparties that comply with Board policy. The credit risk is measured by way of a counterparty credit rating from any two recognised rating agencies. Pre-approved limits are set based on a rating matrix and exposures monitored accordingly. The Group also employs the use of set-off rights in some agreements.

The Group's policy is to provide guarantees for joint ventures and associates only to the relevant proportion of support provided by the partners. At 31 December 2019, the Company has issued guarantees in respect of certain joint ventures and associates as per note 29.

30 (g) Capital risk

The Board's objective is to maintain a capital structure that supports the Group's strategic objectives, including but not limited to reshaping the portfolio through mergers, acquisitions and disposals. In doing so the Board seeks to manage funding and liquidity risk, optimise shareholder return and maintain an implied investment grade credit position. This strategy is unchanged from the prior year.

The Board reviews and approves at least annually a treasury policy document which covers, inter alia, funding and liquidity risk, capital structure and risk management. This policy details targets for committed funding headroom, diversification of committed funding and debt maturity profile.

The Group plans to maintain sufficient funds and distributable reserves to allow payments of projected dividends to shareholders.

The following table summarises the capital of the Group:

	2019 £m	2018 £m
Cash and cash equivalents	(89.5)	(62.5)
Loans	307.9	242.2
Obligations under leases	369.9	14.8
Equity	542.9	386.8
Capital	1,131.2	581.3

As at 31 December 2018, the amounts recognised as obligations under leases represent the liability associated only with leases previously classified as finance leases in accordance with IAS17 Leases.

31. Retirement benefit schemes

31 (a) Defined benefit schemes

i) Characteristics and risks

The Group contributes to defined benefit schemes for qualifying employees of its subsidiaries in the UK and Europe. The normal contributions expected to be paid during the financial year ending 31 December 2020 are £12.7m (2019: £4.9m).

Among our non-contract specific schemes, the largest is the Serco Pension and Life Assurance Scheme (SPLAS). The most recent full actuarial valuation of this scheme was undertaken as at 5 April 2018 and resulted in an actuarially assessed deficit of £26.0m for funding purposes. Pension obligations are valued separately for accounting and funding purposes and there is often a material difference between these valuations. As at 31 December 2019 the estimated actuarial deficit of SPLAS was £27.0m (2018: £27.8m) based on the actuarial assessment on the funding basis whereas the accounting valuation resulted in an asset of £78.3m (2018: £85.8m). The primary reason a difference arises is that pension scheme accounting requires the valuation to be performed on the basis of a best estimate whereas the funding valuation used by the trustees makes more prudent assumptions. A revised schedule of contributions for SPLAS was agreed during 2019, with 30.8% of pensionable salaries due to be paid from 1 November 2019, changing to 30.3% from 1 November 2020. The schedule of contributions also determined that additional shortfall contributions were required – a total of £5.2m of these have already been made, with further amounts of £4m due in both March 2020 and March 2021 then £1.7m for the years 2022 to 2028.

The assets of funded schemes are held independently of the Group's assets in separate trustee administered schemes. The trustees of each pension scheme are required by law to act in the interest of the scheme and of all relevant stakeholders in the scheme. The trustees of the pension schemes are responsible for the investment policy with regard to the assets of the scheme. The Group's major schemes are valued by independent actuaries annually using the projected unit credit actuarial cost method for accounting purposes. This reflects service rendered by employees to the dates of valuation and incorporates actuarial assumptions including: discount rates to determine the present value of benefits; projected rates of salary growth; and life expectancy of pension plan members. Discount rates are based on the market yields of high-quality corporate bonds in the country concerned. Pension assets and liabilities in the different defined benefit schemes are not offset.

The schemes typically expose the Group to risks that impact the financial performance and position of the Group and may affect the amount and timing of future cash flows. The key risks are set out below:

- **Investment risk.** The schemes hold assets with which to discharge the future liabilities of these schemes. Any decline in the value of these investments directly impacts on the ability of the scheme to meet its commitments and could require the Group to fund this shortfall in future years. As a result of the SPLAS's investment strategy, which aims to reduce volatility risk by better matching assets to liabilities, 44% of the scheme's assets are annuity policies, 32% are Liability Driven Investments (LDIs) and the remainder is split between equities, bonds and cash or cash equivalents. The annuity policies result in an insurer funding the future benefit payments to the relevant members and therefore eliminate the risk of changes in the future value of the benefits to the scheme. The main asset classes that make up the LDI investments are gilts and corporate bonds with inflation and interest swap overlays and are therefore linked to the key drivers of the scheme's liabilities. The value of these investments vary in line with gilt yields, which have decreased from 2.86% p.a. to 2.05% p.a. during 2019 resulting in an increase in the value of these assets. SPLAS previously identified an investment strategy consisting of Multi-Asset Absolute Return (MAAR), Buy and Maintain credit (B&M) and LDI. SPLAS previously transferred assets to a passive LDI portfolio managed by BlackRock, over the course of late 2016 and early 2017. This ensures that the scheme remains protected against changes to interest rates and long term inflation expectations, with the funding level therefore being relatively stable. The Buy and Maintain credit implementation comprises four tranches, the final of which is expected to be completed by June 2020, market conditions permitting.
- **Interest risk.** The present value of the defined benefit schemes' liabilities are calculated using a discount rate determined by reference to high-quality corporate bond yields and therefore a decrease in the bond interest rate will increase the schemes' liabilities. This will be partially offset by an increase in the return of the schemes' debt investments.
- **Longevity risk.** The present value of the defined benefit schemes' liabilities are calculated by reference to the best estimate of the mortality of the schemes' participants both during and after their employment. An increase in the life expectancy of the schemes' participants will increase the schemes' liabilities.
- **Salary risk.** The present value of the defined benefit schemes' liabilities are calculated by reference to the future salaries of the schemes' participants, as such, an increase in the salary of the schemes' participants will increase the schemes' liabilities.

Notes to the Consolidated Financial Statements continued

31. Retirement benefit schemes continued

The defined benefit schemes are grouped together as follows:

- **Contract specific.** These are pre-funded defined benefit schemes. The Group has obligations to contribute variable amounts to the pension schemes over the terms of the related contracts as defined by the contract and scheme rules. At rebid, any deficit or surplus would be expected to transfer to the next contractor. At the start of these relevant contracts the Group recognised the defined benefit obligation less the fair value of scheme assets with a corresponding amount recognised as an intangible asset. Subsequent actuarial gains and losses in relation to the Group's share of the pension obligations have been recognised in the SOCI. The intangible assets are amortised over the initial term of the contracts with none remaining at the current or prior year end. Where the relevant scheme has a deficit, which is not required to be fully funded by the Group an adjustment is made to limit the amount recognised in the Group's balance sheet by way of a "franchise adjustment". Under contractual arrangements the Group sponsors a section of an industry-wide defined benefit scheme, the Railways Pension Scheme (RPS), paying contributions in accordance with a Schedule of Contributions. There is no residual liability to fund a deficit at the end of the franchise period and any costs are shared 60% by the employer and 40% by the members. The Group also makes contributions under Admitted Body status to a number of sections of the Local Government Pension Scheme for the period to the end of the relevant customer contracts. The Group will only participate in the Local Government Pension Schemes for a finite period up to the end of the contracts. The Group is required to pay regular contributions as decided by the respective Scheme Actuary and as detailed in each scheme's Schedule of Contributions. In addition, the Group may be required to pay some or all of any deficit (as determined by the respective Scheme Actuary) that is remaining at the end of the contract. In respect of this, the Group recognises a sufficient level of provision in these financial statements based on the IAS19 valuation at the reporting date and contractual obligations.
- **Non-contract specific.** These do not relate to any specific contract and consist of two pre-funded defined benefit schemes and an unfunded defined benefit scheme. Any liabilities arising are recognised in full and the liabilities in relation to the unfunded scheme amount to £0.4m (2018: £0.4m). The unfunded scheme is the only non UK scheme in which the Group participates. The funding policy for the pre-funded schemes is to contribute such variable amounts, on the advice of the actuary, as will achieve 100% funding on a projected salary basis. One of these schemes is SPLAS and the other is a non-contract specific section of the RPS.

ii) Events in the year

In June 2019, the company and the Trustees of SPLAS finalised the 2018 valuation. This led to a new schedule of contributions. Following a 60-day consultation, most active SPLAS members agreed to a small increase in their own contributions, enabling a reduction in employer contributions.

iii) Values recognised in total comprehensive income in the year

The amounts recognised in the financial statements for the year are analysed as follows:

	Contract specific 2019 £m	Non contract specific 2019 £m	Total 2019 £m
Recognised in the income statement			
Current service cost – employer	1.1	3.2	4.3
Past service cost	0.2	1.2	1.4
Administrative expenses and taxes	–	2.0	2.0
Recognised in arriving at operating profit after exceptionals	1.3	6.4	7.7
Interest income on scheme assets – employer	(0.4)	(37.5)	(37.9)
Interest on franchise adjustment	(0.1)	–	(0.1)
Interest cost on scheme liabilities – employer	0.5	35.4	35.9
Finance income	–	(2.1)	(2.1)

	Contract specific 2019 £m	Non contract specific 2019 £m	Total 2019 £m
Included within the SOCI			
Actual return on scheme assets	2.8	125.3	128.1
Less: interest income on scheme assets	(0.5)	(37.6)	(38.1)
	2.3	87.7	90.0
Effect of changes in demographic assumptions	(0.7)	40.6	39.9
Effect of changes in financial assumptions	(4.8)	(143.8)	(148.6)
Effect of experience adjustments	–	(1.6)	(1.6)
Remeasurements	(3.2)	(17.1)	(20.3)
Change in franchise adjustment	2.0	–	2.0
Change in members' share	1.1	0.1	1.2
Actuarial (loss)/profit on reimbursable rights	3.1	0.1	3.2
Total pension loss recognised in the SOCI	(0.1)	(17.0)	(17.1)

	Contract specific 2018 £m	Non contract specific 2018 £m	Total 2018 £m
Recognised in the income statement			
Current service cost – employer	1.1	4.6	5.7
Past service cost	–	9.3	9.3
Administrative expenses and taxes	–	3.9	3.9
Recognised in arriving at operating profit	1.1	17.8	18.9
Interest income on scheme assets – employer	(0.4)	(33.3)	(33.7)
Interest on franchise adjustment	(0.1)	–	(0.1)
Interest cost on scheme liabilities – employer	0.4	32.6	33.0
Finance income	(0.1)	(0.7)	(0.8)

	Contract specific 2018 £m	Non contract specific 2018 (restated*) £m	Total 2018 (restated*) £m
Included within the SOCI			
Actual return on scheme assets	(0.5)	40.7	40.2
Less: interest income on scheme assets	(0.4)	(33.4)	(33.8)
	(0.9)	7.3	6.4
Effect of changes in demographic assumptions	–	(48.9)	(48.9)
Effect of changes in financial assumptions	1.7	74.0	75.7
Effect of experience adjustments	–	18.9	18.9
Remeasurements	0.8	51.3	52.1
Change in members' share	(0.3)	0.1	(0.2)
Actuarial (loss)/profit on reimbursable rights	(0.3)	0.1	(0.2)
Total pension gain recognised in the SOCI	0.5	51.4	51.9

* For the year ended 31 December 2018 a reassessment of the causes of changes in the liability associated with the SPLAS scheme identified that the previously disclosed effect of experience adjustments contained a component that related to a change in demographic assumptions. There is no impact on the closing liability associated with the SPLAS scheme and no impact on the Group's gross or net pension assets or obligations.

Notes to the Consolidated Financial Statements continued

31. Retirement benefit schemes continued

iv) Balance sheet values

The assets and liabilities of the schemes at 31 December are:

	Contract specific 2019 £m	Non contract specific 2019 £m	Total 2019 £m
Scheme assets at fair value			
Equities	10.8	43.9	54.7
Bonds except LDIs	4.1	298.1	302.2
LDIs	–	447.4	447.4
Property	1.7	–	1.7
Cash and other	4.1	5.1	9.2
Annuity policies	–	614.0	614.0
Fair value of scheme assets	20.7	1,408.5	1,429.2
Present value of scheme liabilities	(31.1)	(1,353.4)	(1,384.5)
Net amount recognised	(10.4)	55.1	44.7
Franchise adjustment*	5.8	–	5.8
Members' share of deficit	3.8	–	3.8
Net retirement benefit asset	(0.8)	55.1	54.3
Net pension liability	(0.8)	(23.2)	(24.0)
Net pension asset	–	78.3	78.3
Net retirement benefit asset	(0.8)	55.1	54.3
Deferred tax liabilities	–	(9.2)	(9.2)
Net retirement benefit asset (after tax)	(0.8)	45.9	45.1

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

	Contract specific 2018 £m	Non contract specific 2018 £m	Total 2018 £m
Scheme assets at fair value			
Equities	9.7	39.9	49.6
Bonds except LDIs	3.8	93.4	97.2
LDIs	–	580.7	580.7
Property	1.2	–	1.2
Cash and other	2.9	8.7	11.6
Private debt mandates	–	11.4	11.4
Annuity policies	–	600.2	600.2
Fair value of scheme assets	17.6	1,334.3	1,351.9
Present value of scheme liabilities	(23.8)	(1,263.2)	(1,287.0)
Net amount recognised	(6.2)	71.1	64.9
Franchise adjustment*	3.7	–	3.7
Members' share of deficit	2.3	–	2.3
Net retirement benefit asset	(0.2)	71.1	70.9
Net pension liability	(0.2)	(14.7)	(14.9)
Net pension asset	–	85.8	85.8
Net retirement benefit asset	(0.2)	71.1	70.9
Deferred tax liabilities	–	(9.9)	(9.9)
Net retirement benefit asset (after tax)	(0.2)	61.2	61.0

* The franchise adjustment represents the amount of scheme deficit that is expected to be funded outside the contract period.

The SPLAS Trust Deed gives the Group an unconditional right to a refund of surplus assets, assuming the full settlement of plan liabilities in the event of a plan wind-up. Pension assets are deemed to be recoverable and there are no adjustments in respect of minimum funding requirements as economic benefits are available to the Group either in the form of future refunds or, for plans still open to benefit accrual, in the form of possible reductions in future contributions.

As required by IAS19, the Group has considered the extent to which the pension plan assets should be classified in accordance with the fair value hierarchy of IFRS13. Virtually all equity and debt instruments have quoted prices in active markets. Annuity policies, private debt mandates and property assets can be classified as Level 3 instruments, and LDIs are classified as Level 2.

	Contract specific £m	Non contract specific £m	Total £m
Changes in the fair value of scheme liabilities			
At 1 January 2018	23.4	1,341.3	1,364.7
Current service cost – employer	1.1	4.6	5.7
Current service cost – employee	0.5	–	0.5
Past service costs	–	9.3	9.3
Scheme participants' contributions	0.1	0.2	0.3
Interest cost – employer	0.4	32.6	33.0
Interest cost – employee	0.1	–	0.1
Benefits paid	(0.1)	(80.7)	(80.8)
Effect of changes in financial assumptions	(1.7)	(74.0)	(75.7)
Effect of experience adjustments	–	30.0	30.0
At 1 January 2019	23.8	1,263.3	1,287.1
Current service cost – employer	1.0	3.2	4.2
Current service cost – employee	0.5	–	0.5
Past service costs	0.2	1.2	1.4
Scheme participants' contributions	0.1	0.2	0.3
Interest cost – employer	0.5	35.5	36.0
Interest cost – employee	0.1	–	0.1
Benefits paid	(0.6)	(54.9)	(55.5)
Effect of changes in demographic assumptions	0.7	(40.6)	(39.9)
Effect of changes in financial assumptions	4.8	143.9	148.7
Effect of experience adjustments	–	1.6	1.6
At 31 December 2019	31.1	1,353.4	1,384.5
Changes in the fair value of scheme assets			
	Contract specific £m	Non contract specific £m	Total £m
At 1 January 2018	17.4	1,367.6	1,385.0
Interest income on scheme assets – employer	0.4	33.3	33.7
Interest income on scheme assets – employee	0.1	–	0.1
Administrative expenses and taxes	–	(3.8)	(3.8)
Employer contributions	0.5	10.2	10.7
Contributions by employees	0.2	0.3	0.5
Benefits paid	(0.1)	(80.7)	(80.8)
Return on scheme assets less interest income	(0.9)	7.4	6.5
At 1 January 2019	17.6	1,334.3	1,351.9
Interest income on scheme assets – employer	0.4	37.6	38.0
Interest income on scheme assets – employee	0.1	–	0.1
Administrative expenses and taxes	(0.1)	(2.0)	(2.1)
Employer contributions	0.6	5.5	6.1
Contributions by employees	0.3	0.3	0.6
Benefits paid	(0.5)	(54.9)	(55.4)
Return on scheme assets less interest income	2.3	87.7	90.0
At 31 December 2019	20.7	1,408.5	1,429.2

Notes to the Consolidated Financial Statements continued

31. Retirement benefit schemes continued

Changes in the franchise adjustment	Total £m
At 1 January 2018	3.6
Interest on franchise adjustment	0.1
At 1 January 2019	3.7
Interest on franchise adjustment	0.1
Recognised in the SOCI	2.0
At 31 December 2019	5.8

v) Actuarial assumptions: SPLAS

The assumptions set out below are for SPLAS, which reflects 91% of total liabilities and 94% of total assets of the defined benefit pension schemes in which the Group participates. The significant actuarial assumptions with regards to the determination of the defined benefit obligation are set out below.

The Group has updated its approach to setting RPI and CPI inflation assumptions in light of the RPI reform proposals published on the 4th September 2019 by the UK Chancellor and UK Statistics Authority.

The Group continued to set RPI inflation in line with the market break-even expectations less an inflation risk premium. The inflation risk premium has been increased from 0.2% at 31 December 2018 to 0.4% at 31 December 2019, reflecting an allowance for additional market distortions caused by the RPI reform proposals. For CPI, the Group reduced the assumed difference between the RPI and CPI by 0.4% to an average of 0.6% per annum.

The estimated impact of the change in the methodology is approximately a £20m increase in the defined benefit obligation in respect of the SPLAS scheme.

The average duration of the benefit obligation at the end of the reporting period is 16.8 years (2018: 16.1 years).

Main assumptions	2019 %	2018 %
Rate of salary increases	2.70	2.80
Rate of increase in pensions in payment	2.20 (CPI) and 3.00 (RPI)	2.20 (CPI) and 3.00 (RPI)
Rate of increase in deferred pensions	2.30 (CPI) and 3.30 (RPI)	2.30 (CPI) and 3.30 (RPI)
Inflation assumption	2.20 (CPI) and 3.20 (RPI)	2.30 (CPI) and 3.30 (RPI)
Discount rate	2.10	2.90

Post retirement mortality	2019 years	2018 years
Current pensioners at 65 – male	21.6	22.6
Current pensioners at 65 – female	24.1	25.1
Future pensioners at 65 – male	23.8	24.4
Future pensioners at 65 – female	26.2	27.0

Sensitivity analysis is provided below, based on reasonably possible changes of the assumptions occurring at the end of the reporting period, assuming all other assumptions are held constant. The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 December 2019 where the defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. The defined benefit obligation as at 31 December 2019 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

(Increase)/decrease in defined benefit obligation	2019 £m	2018 £m
Discount rate – 0.5% increase	(108.5)	(102.8)
Discount rate – 0.5% decrease	122.9	112.2
Inflation – 0.5% increase	88.9	66.9
Inflation – 0.5% decrease	(83.3)	(64.7)
Rate of salary increase – 0.5% increase	3.2	2.4
Rate of salary increase – 0.5% decrease	(3.1)	(2.3)
Mortality – one-year age rating	48.6	39.9

Management acknowledges that the method used of presuming that all other assumptions remaining constant has inherent limitation given that it is more likely for a combination of changes, but highlights the value of each individual risk and is therefore a suitable basis for providing this analysis.

Assumptions in respect of the expected return on scheme assets are required when calculating the franchise adjustment for the contract-specific plans. These assumptions are based on market expectations of returns over the life of the related obligation. Due consideration has been given to current market conditions as at 31 December 2019 in respect to inflation, interest, bond yields and equity performance when selecting the expected return on assets assumptions.

The expected yield on bond investments with fixed interest rates is derived from their market value. The yield on equity investments contains an additional premium (an 'equity risk premium') to compensate investors for the additional anticipated risks of holding this type of investment, when compared to bond yields. The Group applies an equity risk premium of 4.6% (2018: 4.6%).

The overall expected return on assets is calculated as the weighted average of the expected returns for the principal asset categories held by the scheme.

31 (b) Defined contribution schemes

The Group paid employer contributions of £69.2m (2018: £73.6m) into UK and other defined contribution schemes and foreign state pension schemes.

Serco accounts for certain pre-funded defined benefit schemes relating to contracts as defined contribution schemes because the contributions are fixed until the end of the current concession and at rebid any surplus or deficit would transfer to the next contractor. Cash contributions are recognised as pension costs and no asset or liability is shown on the balance sheet.

32. Share capital

	2019 £m	Number 2019 millions	2018 £m	Number 2018 millions
Issued and fully paid				
1,098,564,237 (2018: 1,098,564,237) ordinary shares of 2p each at 1 January	22.0	1,098.6	22.0	1,098.6
Issued: 124,816,400 ordinary shares of 2p	2.5	124.8	–	–
1,223,380,637 (2018: 1,098,564,237) ordinary shares of 2p each at 31 December	24.5	1,223.4	22.0	1,098.6

In May 2019, the company completed a placement of 111,216,400 new ordinary shares of 2p each raising net proceeds of £138.7m (2018: nil). Additionally, in March 2019, 13,600,000 shares were issued to the Employee Share Ownership Trust to satisfy awards under the Group's share award schemes.

The Company has one class of ordinary shares which carry no right to fixed income.

33. Share premium account

	2019 £m	2018 £m
At 1 January	327.9	327.9
Arising on shares issued	135.0	–
At 31 December	462.9	327.9

34. Reserves

34 (a) Retirement benefit obligations reserve

The retirement benefit obligations reserve represents the actuarial gains and losses recognised in respect of annual actuarial valuations for defined benefit retirement schemes, the fair value adjustments on reimbursable rights and the related movements in deferred tax balances.

34 (b) Share based payment reserve

The share based payment reserve represents credits relating to equity-settled share-based payment transactions and any gain or loss on the exercise of share awards schemes satisfied by own shares.

34 (c) Own shares reserve

The own shares reserve represents the cost of shares in Serco Group plc purchased in the market and held by the Serco Group plc Employee Share Ownership Trust (ESOT) to satisfy options under the Group's share award schemes. At 31 December 2019, the ESOT held 4,805,612 (2018: 3,527,740) shares equal to 0.4% of the current allotted share capital (2018: 0.3%). The market value of shares held by the ESOT as at 31 December 2019 was £7.8m (2018: £3.4m).

Notes to the Consolidated Financial Statements continued

34. Reserves continued

34 (d) Hedging and translation reserve

The hedging and translation reserve represents foreign exchange differences arising on translation of the Group's overseas operations and movements relating to cash flow hedges.

	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2018	(0.7)	10.8	10.1
Total comprehensive income for the year	0.6	(5.3)	(4.7)
At 1 January 2019	(0.1)	5.5	5.4
Total comprehensive income for the year	(0.1)	(33.3)	(33.4)
At 31 December 2019	(0.2)	(27.8)	(28.0)

35. Share based payment expense

The Group recognised the following expenses related to equity settled share based payment transactions:

	2019 £m	2018 £m
Long Term Incentive Plan	2.0	–
Performance Share Plan	7.8	13.1
Deferred Bonus Plan	1.4	1.6
Equity Settled Bonus Plan	0.4	–
	11.6	14.7

Long Term Incentive Plan (LTIP)

Under the LTIP, eligible employees have been granted conditional share awards. Awards vest after the performance period of two to three years and are subject to the achievement of certain performance measures, with the exception of non-performance awards. These non-performance awards are only subject to continued employment on vesting dates which vary from two to three years after the grant dates.

On the performance related awards, the performance measures are Earnings per Share (EPS), Total Shareholder Return (TSR), Return on Invested Capital (ROIC) and measures linked to Strategic Objectives.

	Number of shares under award 2019 thousands	Weighted average exercise price 2019 £	Number of shares under award 2018 thousands	Weighted average exercise price 2018 £
Outstanding at 1 January	–	nil	–	nil
Granted during the year	11,832	nil	–	nil
Lapsed during the year	(364)	nil	–	nil
Outstanding at 31 December	11,468	nil	–	nil

The awards over shares outstanding at 31 December 2019 were all unvested and had a weighted average contractual life of 2.4 years (2018: nil years).

In the year, eight grants were made, of which six were non-performance. The remaining two performance based awards are with 85% of the award split equally between Earnings per Share (EPS), Total Shareholder Return (TSR) and Return on Invested Capital (ROIC) performance conditions and the remaining 15% linked to Strategic Objectives based on improvements in order book and employee engagement. The rewards subject to market-based performance conditions (such as the TSR condition for these awards) were valued using the Monte Carlo Simulation model. For rewards subject only to non-market-based performance conditions (such as the EPS and ROIC conditions) a Black-Scholes model has been used. A Black-Scholes model has also been used for the awards made with no performance conditions attached to them.

The Monte Carlo Simulation model is considered to be the most appropriate for valuing awards granted under schemes where there are changes in performance conditions by which the awards are measured, such as for the Absolute Share Price or TSR based awards.

The Monte Carlo and Black-Scholes models used the following inputs:

	2019
Weighted average share price	£1.32
Weighted average exercise price	nil
Expected volatility	31.7%
Expected life	3 years
Risk free rate	0.55%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The weighted average fair value of awards granted under this scheme in the year is £1.25 (2018: nil).

Performance Share Plan (PSP)

Under the PSP, eligible employees have been granted options or conditional share awards with an exercise price of two or zero pence. Awards vest after the performance period of two to five years and are subject to the achievement of certain performance measures, with the exception of non-performance awards. These non-performance awards are only subject to continued employment on vesting dates which vary from two to five years after the grant dates.

On the performance related awards, the performance measures are Earnings per Share (EPS), Total Shareholder Return (TSR) and Return on Invested Capital (ROIC). Additional measures linked to Strategic Objectives were introduced for new grants in 2018.

If the options remain unexercised after a period of ten years from the date of grant, then the options expire.

	Number of options or shares under award 2019 thousands	Weighted average exercise price 2019 £	Number of options or shares under award 2018 thousands	Weighted average exercise price 2018 £
Outstanding at 1 January	43,551	0.02	41,001	0.02
Granted during the year	–	–	15,213	0.02
Exercised during the year	(10,906)	0.02	(4,445)	0.02
Lapsed during the year	(4,160)	0.02	(8,218)	0.02
Outstanding at 31 December	28,485	0.02	43,551	0.02

Of these awards, 4,373,694 (2018: 3,829,638) were exercisable at the end of the year. The awards outstanding at 31 December 2019 had a weighted average contractual life of 6.9 years (2018: 7.4 years).

The awards subject to market-based performance conditions (such as the TSR condition for these awards), were valued using the Monte Carlo Simulation model. For awards subject only to non-market-based performance conditions (such as the EPS and ROIC conditions) a Black-Scholes model has been used. A Black-Scholes model has also been used for the awards made with no performance conditions attached to them.

The Monte Carlo Simulation model is considered to be the most appropriate for valuing awards granted under schemes where there are changes in performance conditions by which the awards are measured, such as for the Absolute Share Price or TSR based awards.

There were no new awards granted under the Performance Share Plan in the year.

Notes to the Consolidated Financial Statements continued

35. Share based payment expense continued

Deferred Bonus Plan (DBP)

Under the DBP, eligible employees are entitled to participate in a voluntary bonus deferral, using up to 50% of their earned annual bonus to purchase shares in the Group at market price. In connection with this, the Group will make a matching share award, up to a maximum of two times the gross bonus deferred, which will vest provided they remain in employment for that period, the shares are retained for that period and the performance measures have been met.

	Number of shares under award 2019 thousands	Weighted average exercise price 2019 £	Number of shares under award 2018 thousands	Weighted average exercise price 2018 £
Outstanding at 1 January	5,021	nil	4,894	nil
Granted during the year	496	nil	956	nil
Exercised during the year	(2,137)	nil	(755)	nil
Lapsed during the year	–	nil	(74)	nil
Outstanding at 31 December	3,380	nil	5,021	nil

The awards over shares outstanding at 31 December 2019 and 2018 were all unvested and had a weighted average contractual life of 1.0 years (2018: 1.2 years).

There were 496,536 new awards granted under the Deferred Bonus Plan in the year, subject to the same EPS performance conditions as the LTIP. The awards were valued using a Black-Scholes model.

The Black-Scholes model used the following inputs:

	2019
Weighted average share price	£1.46
Weighted average exercise price	nil
Expected volatility	30.5%
Expected life	3 years
Risk free rate	0.52%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The weighted average fair value of awards granted under this scheme in the year is £1.46 (2018: £0.99).

Equity Settled Bonus Plan (ESBP)

Under the ESBP, eligible employees who are subject to a compulsory bonus deferral, are granted share awards equivalent in value to the gross bonus deferred. The awards vest at the end of the deferral period and the awards are not subject to any performance or service conditions.

	Number of shares under award 2019 thousands	Weighted average exercise price 2019 £	Number of shares under award 2018 thousands	Weighted average exercise price 2018 £
Outstanding at 1 January	–	nil	–	nil
Granted during the year	308	nil	–	nil
Outstanding at 31 December	308	nil	–	nil

The awards over shares outstanding at 31 December 2019 were all unvested and had a weighted average contractual life of 2.3 years (2018: nil).

There were 308,182 new awards granted under the Equity Settled Bonus Plan in the year. The awards were valued using a Black-Scholes model.

The Black-Scholes Model used the following inputs:

	2019
Weighted average share price	£1.23
Weighted average exercise price	nil
Expected volatility	32.1%
Expected life	3 years
Risk free rate	0.79%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The weighted average fair value of awards granted under this scheme in the year is £1.23 (2018: nil).

Executive Option Plan (EOP)

Options granted under the EOP may be exercised after the third anniversary of grant, dependent upon the achievement of a financial performance target over three years. The options are granted at market value and awards made to eligible employees are based on between 50% and 100% of salary as at 31 December prior to grant. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options may be forfeited if the eligible employee leaves the Group before the options vest. Details of the movement in all EOP options are as follows:

	Number of options 2019 thousands	Weighted average exercise price 2019 £	Number of options 2018 thousands	Weighted average exercise price 2018 £
Outstanding at 1 January	55	3.88	93	4.16
Lapsed during the year	(55)	(3.88)	(38)	(0.28)
Outstanding at 31 December	–	–	55	3.88

At the end of 2019, all remaining options had lapsed. In 2018, 54,545 options were exercisable at the end of the year, with a weighted average exercise price of £3.88.

The options outstanding at 31 December 2018 had a weighted average contractual life of 0.37 years and an exercise price of £3.88.

In 2018 the weighted average share price at the date of exercise approximated to the weighted average share price during the year, which was £0.95.

The fair value of options granted under the EOP is measured by use of the Binomial Lattice model. The Binomial Lattice model is considered to be most appropriate for valuing options granted under this scheme as it allows exercise over a longer period of time between the vesting date and the expiry date. There were no new options granted under Executive Option Plan during the year and all shares are now vested.

Notes to the Consolidated Financial Statements continued

36. Related party transactions

Transactions between the Company and its wholly owned subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint venture undertakings and associates are disclosed below.

Transactions

During the year, Group companies entered into the following transactions with joint ventures and associates:

	Transactions 2019 £m	Current outstanding at 31 December 2019 £m	Non current outstanding at 31 December 2019 £m
Sale of goods and services			
Joint ventures	1.3	0.1	–
Associates	8.4	0.5	–
Other			
Dividends received – joint ventures	7.8	–	–
Dividends received – associates	17.6	–	–
Receivable from consortium for tax – joint ventures	4.4	4.8	–
	39.5	5.4	–

Joint venture receivable and loan amounts outstanding have arisen from transactions undertaken during the general course of trading, are unsecured, and will be settled in cash. Interest arising on loans is based on LIBOR, or its equivalent, with an appropriate margin. No guarantee has been given or received.

	Transactions 2018 £m	Current outstanding at 31 December 2018 £m	Non current outstanding at 31 December 2018 £m
Sale of goods and services			
Joint ventures	0.4	0.1	–
Associates	7.3	0.6	–
Other			
Dividends received – joint ventures	9.7	–	–
Dividends received – associates	20.0	–	–
Receivable from consortium for tax – joint ventures	4.8	5.3	–
	42.2	6.0	–

Remuneration of key management personnel

The Directors of Serco Group plc had no material transactions with the Group during the year other than service contracts and Directors' liability insurance.

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS24 *Related Party Disclosures*:

	2019 £m	2018 £m
Short-term employee benefits	8.9	9.5
Share based payment expense	5.3	5.3
	14.2	14.8

The key management personnel comprise the Executive Directors, Non-Executive Directors and members of the Executive Committee (2019: 17 individuals, 2018: 17 individuals).

Aggregate Directors' Remuneration

The total amounts for Directors' remuneration in accordance with Schedule 5 to the Accounting Regulations were as follows:

	2019 £m	2018 £m
Salaries, fees, bonuses and benefits in kind	3.9	4.0
Amounts receivable under long-term incentive schemes	3.0	3.1
Gains on exercise of share options	5.1	1.8
	12.0	8.9

None of the Directors are members of the Company's defined benefit pension scheme.

One Director is a member of the money purchase scheme.

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 134 to 148.

37. Notes to the consolidated cash flow statement

Year ended 31 December	2019 Before exceptional items £m	2019 Exceptional items £m	2019 Total £m	2018 Before exceptional items £m	2018 Exceptional items £m	2018 Total £m
Operating profit for the year	125.9	(23.4)	102.5	112.4	(31.9)	80.5
Adjustments for:						
Share of profits in joint ventures and associates	(27.5)	–	(27.5)	(28.8)	–	(28.8)
Share based payment expense	11.6	–	11.6	14.7	–	14.7
Impairment of property, plant and equipment	18.9	–	18.9	0.7	–	0.7
Impairment of intangible assets	–	–	–	0.1	–	0.1
Depreciation of property, plant and equipment	74.4	–	74.4	19.5	–	19.5
Amortisation of intangible assets	25.6	–	25.6	22.9	–	22.9
Exceptional loss on disposal of subsidiaries and operations	–	–	–	–	0.5	0.5
Reversal of impairment on loan balances	–	–	–	–	(13.9)	(13.9)
Profit on early termination of leases	(0.9)	–	(0.9)	–	–	–
(Profit)/loss on disposal of property, plant and equipment	(0.6)	–	(0.6)	0.5	–	0.5
Loss on disposal of intangible assets	0.4	–	0.4	1.5	–	1.5
Exceptional Interest in JV	–	–	–	–	0.3	0.3
Decrease in provisions	(43.1)	(20.5)	(63.6)	(68.1)	(13.8)	(81.9)
Other non cash movements	(1.2)	–	(1.2)	(0.2)	–	(0.2)
Total non cash items	57.6	(20.5)	37.1	(37.2)	(26.9)	(64.1)
Operating cash inflow/(outflow) before movements in working capital	183.5	(43.9)	139.6	75.2	(58.8)	16.4
Decrease/(increase) in inventories	4.4	–	4.4	(5.0)	–	(5.0)
(Increase)/decrease in receivables	(36.7)	–	(36.7)	(22.9)	0.4	(22.5)
Increase/(decrease) in payables	32.2	(5.3)	26.9	6.3	18.2	24.5
Movements in working capital	(0.1)	(5.3)	(5.4)	(21.6)	18.6	(3.0)
Cash generated by operations	183.4	(49.2)	134.2	53.6	(40.2)	13.4
Tax paid	(31.2)	–	(31.2)	(10.6)	–	(10.6)
Non cash R&D expenditure	(0.1)	–	(0.1)	(0.1)	–	(0.1)
Net cash inflow/(outflow) from operating activities	152.1	(49.2)	102.9	42.9	(40.2)	2.7

Additions to property, plant and equipment during the year amounting to £304.3m (2018: £3.6m) were financed by new leases.

38. Post balance sheet events

Subsequent to the year-end, the Board has recommended the payment of a final dividend in respect of the year ended 31 December 2019 of 1.0p. The dividend remains subject to shareholder approval at the Annual General Meeting and therefore no amounts have been recognised in respect of a dividend in these financial statements.

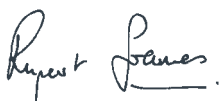
Following the balance sheet date the UK formally left the European Union, which happened as expected following the result of the General Election in December 2019. The transition period is expected to end on 31 December 2020 and the current shape of the economic and political partnership between the UK and EU is not known. Notwithstanding this, as outlined in the Chief Executive's review on page 32 the Group's direct exposure to Brexit is small as Serco neither exports nor imports to any significant degree; our business in continental Europe is conducted through long-established local subsidiaries; and we employ relatively few continental European citizens in the UK.

Company Balance Sheet

At 31 December	Note	2019 £m	2018 £m
Non current assets			
Property, plant and equipment	40	0.1	–
Investments in subsidiaries	41	2,029.5	2,021.7
		2,029.6	2,021.7
Current assets			
Debtors: amounts due within one year	42	4.6	3.2
Debtors: amounts due after more than one year	42	211.9	381.0
Derivative financial instruments due within one year	46	2.9	–
Derivative financial instruments due after more than one year	46	–	7.5
Corporation tax asset		0.4	–
Cash at bank and in hand		14.2	36.5
		234.0	428.2
Total assets		2,263.6	2,449.9
Creditors: amounts falling due within one year			
Trade and other payables	43	(67.2)	(60.6)
Borrowings	44	(56.1)	(21.9)
Provisions	45	(9.0)	(2.8)
Corporation tax liability		–	(0.1)
Derivative financial instruments	46	(1.8)	(3.7)
		(134.1)	(89.1)
Net current assets		99.9	339.1
Creditors: amounts falling due after more than one year			
Trade and other payables	43	(0.1)	–
Borrowings	44	(248.9)	(217.6)
Amounts owed to subsidiary companies		(782.9)	(1,130.3)
Provisions	45	(41.1)	(41.1)
		(1,073.0)	(1,389.0)
Total liabilities		(1,207.1)	(1,478.1)
Net assets		1,056.5	971.8
Capital and reserves			
Called up share capital	48	24.5	22.0
Share premium account	49	462.9	327.9
Capital redemption reserve		0.1	0.1
Profit and loss account	50	515.5	580.0
Share based payment reserve	51	57.9	60.7
Own shares reserve		(4.4)	(18.7)
Hedging and translation reserve	53	–	(0.2)
Total shareholders' funds		1,056.5	971.8

The accompanying notes form an integral part of the financial statements.

The financial statements (registered number 02048608) were approved by the Board of Directors on 25 February 2020 and signed on its behalf by:



Rupert Soames
Group Chief Executive Officer



Angus Cockburn
Group Chief Financial Officer

Company Statement of Changes in Equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Share based payment reserve £m	Own shares reserve £m	Hedging and translation reserve £m	Total shareholders' equity £m
At 1 January 2018	22.0	327.9	0.1	617.6	74.0	(46.1)	(0.6)	994.9
Total comprehensive income for the year	-	-	-	(37.6)	-	-	0.4	(37.2)
Shares transferred to option holders on exercise of share options	-	-	-	-	(28.0)	27.4	-	(0.6)
Options over parent's shares awarded to employees of subsidiaries	-	-	-	-	11.2	-	-	11.2
Expense in relation to share based payments	-	-	-	-	3.5	-	-	3.5
At 1 January 2019	22.0	327.9	0.1	580.0	60.7	(18.7)	(0.2)	971.8
Total comprehensive income for the year	-	-	-	(64.5)	-	-	0.2	(64.3)
Issue of share capital	2.5	135.0	-	-	-	(0.3)	-	137.2
Shares transferred to option holders on exercise of share options	-	-	-	-	(14.4)	14.6	-	0.2
Options over parent's shares awarded to employees of subsidiaries	-	-	-	-	7.8	-	-	7.8
Expense in relation to share based payments	-	-	-	-	3.8	-	-	3.8
At 31 December 2019	24.5	462.9	0.1	515.5	57.9	(4.4)	-	1,056.5

The accompanying notes form an integral part of the financial statements.

Notes to the Company Financial Statements

39. Accounting policies

The principal accounting policies adopted are set out below and have been applied consistently throughout the current and preceding year.

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. The total loss for the year was £64.5m (2018: £37.6m), and loss in total comprehensive income for the year was a loss of £64.3m (2018: loss of £37.2m).

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

The financial statements have been prepared on the historical cost basis and on the going concern basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements, except as noted below.

Fixed asset investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

40. Property, plant and equipment

Leased motor vehicles of £0.1m have been included on the balance sheet following the adoption of IFRS16.

41. Investments held as fixed assets

Shares in subsidiary companies at cost	£m
At 1 January 2018	2,010.5
Options over parent's shares awarded to employees of subsidiaries	11.2
At 1 January 2019	2,021.7
Options over parent's shares awarded to employees of subsidiaries	7.8
At 31 December 2019	2,029.5

The Company directly owns 100% of the ordinary share capital of the following subsidiaries:

Name	% ownership
Serco Holdings Limited	100%

42. Debtors

Amounts due within one year	2019 £m	2018 £m
Other debtors	4.6	3.2

Amounts due after more than one year	2019 £m	2018 £m
Amounts owed by subsidiary companies	211.9	381.0

43. Trade and other payables

	2019 £m	2018 £m
Amounts due within one year		
Amounts owed to subsidiary companies	49.7	42.5
Trade creditors	0.3	1.6
Accruals and deferred income	14.6	13.7
Other creditors including taxation and social security	2.6	2.8
	67.2	60.6
Amounts due after more than one year		
Other creditors	0.1	–

44. Borrowings

	2019 £m	2018 £m
Loans	305.0	239.5
Less: Amounts included in creditors falling due within one year – loans	(56.1)	(21.9)
Amounts falling due after more than one year	248.9	217.6
Loans:		
Within one year or on demand	56.1	21.9
Between one and two years	93.9	6.4
Between two and five years	155.0	159.5
After five years	–	51.7
	305.0	239.5

Included within amounts repayable within one year is £50.0m (2018: nil) related to the draw down on the revolving credit facility. These amounts have individual maturity dates within one year, although the amounts are renewable under the terms of the facility which will remain in place until December 2023.

45. Provisions

	Contract £m	Other £m	Total £m
At 1 January 2019	–	43.9	43.9
Charged to income statement	6.2	–	6.2
At 31 December 2019	6.2	43.9	50.1
Analysed as:			
Current	6.2	2.8	9.0
Non current	–	41.1	41.1
	6.2	43.9	50.1

Other provisions are held for indemnities given on disposed businesses, legal and other costs that the Group expects to incur over an extended period, in respect of past events. These costs are based on past experience of similar items and other known factors and represent management's best estimate of the likely outcome.

Notes to the Company Financial Statements continued

46. Derivative financial instruments

	Assets 2019 £m	Liabilities 2019 £m	Assets 2018 £m	Liabilities 2018 £m
Currency swaps	–	–	5.1	–
Forward foreign exchange contracts	2.9	(1.8)	2.4	(3.7)
	2.9	(1.8)	7.5	(3.7)
Analysed as:				
Non current	–	–	7.5	–
Current	2.9	(1.8)	–	(3.7)
	2.9	(1.8)	7.5	(3.7)

The Company holds derivative financial instruments in accordance with the Group's policy in relation to its financial risk management. Details of the disclosures are set out in note 30 of the Group's consolidated financial statements.

47. Deferred tax

The deferred tax asset not provided is as follows:

	2019 £m	2018 £m
At 31 December		
Depreciation in excess of capital allowances	0.3	0.3
Short-term timing differences	0.9	0.8
Losses	31.8	29.5
	33.0	30.6

48. Called up share capital

	2019 £m	Number 2019 millions	2018 £m	Number 2018 millions
Issued and fully paid				
1,098,564,237 (2018: 1,098,564,237) ordinary shares of 2p each at 1 January	22.0	1,098.6	22.0	1,098.6
Issue: 124,816,400 ordinary shares of 2p	2.5	124.8	–	–
1,223,380,637 (2018: 1,098,564,237) ordinary shares of 2p each at 31 December	24.5	1,223.4	22.0	1,098.6

In May 2019, the company completed a placement of 111,216,400 new ordinary shares of 2p each raising net proceeds of £138.7m (2018: nil). Additionally, in March 2019, 13,600,000 shares were issued to the Employee Share Ownership Trust to satisfy awards under the Group's share award schemes.

The Company has one class of ordinary shares which carry no right to fixed income.

49. Share premium account

	2019 £m	2018 £m
At 1 January	327.9	327.9
Arising on shares issued	135.0	–
At 31 December	462.9	327.9

50. Profit and loss account

	2019 £m	2018 £m
At 1 January	580.0	617.6
Loss for the year	(64.5)	(37.6)
At 31 December	515.5	580.0

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these accounts. The total loss for the year was £64.5m (2018: loss of £37.6m), and loss in total comprehensive income for the year was a loss of £64.3m (2018: loss of £37.2m).

The Company plans to maintain sufficient funds and distributable reserves to allow payments of projected dividends to shareholders. During 2015 Serco Group plc, as a statutory entity, created £519m of reserves from the Rights Issue which was structured to ensure that these reserves were distributable. The majority of these reserves remain and are available to facilitate the payment of distributions by Serco Group plc.

51. Share based payment reserve

	2019 £m	2018 £m
At 1 January	60.7	74.0
Options over parent's shares awarded to employees of subsidiaries	7.8	11.2
Share based payment charge	3.8	3.5
Share options to holders on exercise	(14.4)	(28.0)
At 31 December	57.9	60.7

Details of the share based payment disclosures are set out in note 35 of the Group's consolidated financial statements.

52. Own shares

The own shares reserve represents the cost of shares in Serco Group plc purchased in the market and held by the Serco Group plc Employee Share Ownership Trust (ESOT) to satisfy options under the Group's share award schemes. At 31 December 2019, the ESOT held 4,805,612 (2018: 3,527,740) shares equal to 0.4% of the current allotted share capital (2018: 0.3%). The market value of shares held by the ESOT as at 31 December 2019 was £7.8m (2018: £3.4m).

53. Hedging and translation reserve

	2019 £m	2018 £m
At 1 January	(0.2)	(0.6)
Fair value gain on cash flow hedges during the period	0.2	0.4
At 31 December	–	(0.2)

54. Contingent liabilities

The Company has guaranteed overdrafts, finance leases, and bonding facilities of its joint ventures and associates up to a maximum value of £4.3m (2018: £4.3m). The actual commitment outstanding at 31 December 2019 was £4.3m (2018: £4.3m).

Both the Company and its subsidiaries have provided certain guarantees and indemnities in respect of performance and other bonds, issued by its banks on its behalf in the ordinary course of business. The total commitment outstanding as at 31 December 2019 was £239.8m (2018: £207.0m).

The Company also provides Parent Company guarantees in respect of trading performance and/or recovery of liabilities owed to customers by its subsidiaries. These are not expected to result in any material financial loss to the Company.

The Group has received a claim seeking damages for alleged losses following the reduction in Serco's share price in 2013. The merit, likely outcome and potential impact on the group of any such litigation that either has been or might potentially be brought against the group is subject to a number of significant uncertainties and, therefore, it is not possible to reliably assess the quantum of any such litigation as at the date of this disclosure.

The Group is aware of claims and potential claims which involve or may involve legal proceedings against the Group. The Directors are of the opinion, having regard to legal advice received and the Group's insurance arrangements, that it is unlikely that these matters will, in aggregate, have a material effect on the Group's financial position.

55. Related parties

The Directors of Serco Group plc had no material transactions with the Company or its subsidiaries during the year other than service contracts and Directors' liability insurance. Details of the Directors' remuneration are disclosed in the Remuneration Report for the Group.

The Company is exempt under the terms of FRS 101 from disclosing related party transactions with entities that are 100% owned by Serco Group plc.

Appendix: List of Subsidiaries and Related Undertakings

Company name	Serco Group interest	Registered office address
Aeradio Technical Services WLL ^{2/4}	49%	Headquarters Building, Building # 1605, Road # 5141, Askar # 951, PO Box 26803 Manama, Kingdom of Bahrain
Aeradio Technical Services LLC	49%	Headquarters Building, PO Box 126, Doha, Qatar
Alion-IPS Corporation	100%	12930 Worldgate Drive, Suite 600, Herndon VA 20170, United States
AWE Management Limited ³	24.5%	Room 20, Building F161.2 Atomic Weapons Establishment, Aldermaston, Reading, RG7 4PR, United Kingdom
AWE Pension Trustees Limited	24.5%	Room 20, Building F161.2 Atomic Weapons Establishment, Aldermaston, Reading, RG7 4PR, United Kingdom
AWE plc	24.5%	Room 20, Building F161.2 Atomic Weapons Establishment, Aldermaston, Reading, RG7 4PR, United Kingdom
BAS-Serco Limited	10%	Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda
Cardinal Insurance Company Limited	100%	Maison Trinity, Trinity Square, St Peter Port Guernsey
CCM Software Services Ltd ²	100%	135 Hillside, Greystones, Co Wicklow 216410, Ireland
COMPASS SNI Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Confluent Innovations, LLC	49%	5880 Innovation Drive, Dublin, OH 43016, United States
Djurgardens Farjetrafik AB	50%	Svensksundsvagen 17, 111 49 Stockholm Sweden
DMS Maritime Pty Limited	100%	Level 24, 60 Margaret Street, Sydney NSW 2000, Australia
Hong Kong Parking Limited	40%	Room 2601, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong
Innu Serco Inc	49%	P.O. Box 1012, Station C, Happy Valley – Goose Bay, NL, A0P 1C0, Canada
Innu Serco Limited Partnership	49%	P.O. Box 1012, Station C, Happy Valley – Goose Bay, NL, A0P 1C0, Canada
International Aeradio (Emirates) LLC – Abu Dhabi	49%	Office No. 503, 5th Floor, Al Muhairy Building, Zayed The First Street, PO Box 3164 Abu Dhabi, United Arab Emirates
International Aeradio (Emirates) LLC – Dubai	49%	19th Floor, Rolex Tower, Sheikh Zayed Road, PO Box 9197 Dubai, United Arab Emirates
JBI Properties Services Company LLC	49%	Al Jazira Club, 303, Tower A, Muroor Road (4th Street), PO Box 63737 Abu Dhabi, United Arab Emirates
Khadamat Facilities Management LLC	49%	The United Arab Emirates University, Al Jamea Street, Al Maqam District, PO Box 15551 Al Ain, United Arab Emirates
LOGTEC Inc.	100%	12930 Worldgate Drive, Suite 600, Herndon VA 20170, United States
Mahani Technical Services, LLC	49%	Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, Delaware 19801
Merseyrail Electrics 2002 Limited	50%	Rail House, Lord Nelson Street, Liverpool, Merseyside, L1 1JF
Merseyrail Infraco Limited	50%	Rail House, Lord Nelson Street, Liverpool, Merseyside, L1 1JF
Merseyrail Services Holding Company Limited ³	50%	Eversheds House, 70 Great Bridgewater Street, Manchester, Lancashire, M1 5ES United Kingdom
Northern Rail Holdings Limited	50%	Eversheds House, 70 Great Bridgewater Street, Manchester, Lancashire, M1 5ES United Kingdom
Northern Rail Limited	50%	Serco House 16 Bartley Wood, Business Park Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Priority Properties North West Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, United Kingdom
Serco (Jersey) Limited	100%	13 Castle Street St Helier Jersey JE4 5UT, Jersey
Serco Australia Pty Limited ³	100%	Level 24, 60 Margaret Street, Sydney NSW 2000, Australia
Serco Belgium S.A	100%	Avenue de Cortenbergh 60 – 1000 Brussels, Belgium

Company name	Serco Group interest	Registered office address
Serco Caledonian Sleepers Limited	100%	Basement And Ground Floor Premises, 1-5 Union Street, Inverness, IV1 1PP, Scotland, United Kingdom
Serco Canada Inc.	100%	330 Bay Street, Suite 400, Toronto, Canada M5H 2S8
Serco Canada Marine Corporation	100%	12930 Worldgate Drive, Suite 600, Herndon VA 20170, United States
Serco Citizen Services Pty Ltd	100%	Level 24, 60 Margaret Street, Sydney NSW 2000, Australia
Serco Consulting Bahrain WLL	100%	Diplomatic Area, Road 1702, Block 317, Building 125, Flat 407, Manama, Kingdom of Bahrain
Serco Corporate Services Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Defence Clothing Pty Ltd	100%	Level 24, 60 Margaret Street, Sydney NSW 2000, Australia
Serco Defence SA	100%	Avenue de Cortenbergh 60-1000 Brussels, Belgium
Serco Defence Services Pty Ltd	100%	Level 24, 60 Margaret Street, Sydney NSW 2000, Australia
Serco Environmental Services Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Ferries (Guernsey) Crewing Limited	100%	4th Floor, West Wing, Trafalgar Court, Admiral Park, St Peter Port, GY1 2JA, Guernsey
Serco Ferries (HR) Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Geografix Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Gestion de Negocios SL	100%	Calle Ayala, 13 1ºDr, 28001 Madrid, Spain
Serco Group (HK) Limited	100%	Suite No. 1, 11 F., Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong
Serco Group Pty Limited	100%	Level 24, 60 Margaret Street, Sydney NSW 2000, Australia
Serco Holdings Limited ¹	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Inc. ³	100%	12930 Worldgate Drive, Suite 600, Herndon VA 20170, United States
Serco Integrated Transport Private Limited ²	100%	Office# 431, Level 4, Augusta Point, Sector 53 Golf Course Road, Gurgaon 122002, India
Serco International Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco International S.à r.l	100%	17 Boulevard Royal, L-2449, Luxembourg
Serco Italia SpA	100%	Viale della Tecnica 161, 00144, Rome, Italy
Serco Leasing Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Leisure Operating Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Limited ³	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Listening Company Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Luxembourg S.A.	100%	Rue de Neudorf, 560A, L2200, Luxembourg
Serco Nederland B.V.	100%	Kapteynstraat 1, 2201 BB Noordwijk ZH, Netherlands
Serco New Zealand (Asset Management Services) Limited	100%	18 Viaduct Harbour Avenue, Auckland Central, Auckland, 1010, New Zealand
Serco New Zealand Limited	100%	Level 4, KPMG Centre, 18 Viaduct Harbour Avenue, Auckland Central, Auckland, 1010, New Zealand
Serco New Zealand Training Limited	100%	Level 4, KPMG Centre, 18 Viaduct Harbour Avenue, Auckland Central, Auckland, 1010, New Zealand

Appendix: List of Subsidiaries and Related Undertakings continued

Company name	Serco Group interest	Registered office address
Serco North America (Holdings), Inc.	100%	1209 Orange Street, Wilmington, DE 19801, United States
Serco North America Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Paisa Limited	50%	Surrey, Ci Tower, St. George's Square, New Malden, Surrey, KT3 4TE United Kingdom
Serco PIK Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Pension Trustee Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Projects LLC	49%	Global Business Centre 2, Second Floor, Al Hitmi Village Building, C-Ring Road, PO Box 25422 Doha, State of Qatar
Serco Regional Services Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Serco Safety Services L.L.C. ⁵	49%	Hala Business Center, Al Khor Building, Office 201, 202, Baniyas Street, Al Buteen Area Deira, Dubai
Serco Sarl	100%	15, rue Lumière 01630 Saint Genis Pouilly, France
Serco SAS	100%	15, rue Lumière 01630 Saint Genis Pouilly, France
Serco Saudi Arabia LLC	100%	Mazaya Tower, 1st Floor, King Saud Road, PO Box 366877, Riyadh 11393, Kingdom of Saudi Arabia
Serco Saudi Services L.L.C.	60%	Office No. 31, 4th Floor, Amar 40 Building (No. 2444), 6987 King Abdulaziz Road, Al Masif, PO Box 50025, Riyadh 11523, Kingdom of Saudi Arabia
Serco Services GmbH	100%	Lise-Meitner-Strasse 10, 64293 Darmstadt, Germany
Serco Services Inc.	100%	Suite 1000, 1818 Library Street, Reston VA 20190, United States
Serco Services Ireland Limited	100%	29 Earlsfort Terrace, Dublin 2, Ireland
Serco Singapore Pte Limited	100%	38 Beach Road, #29-11 South Beach Tower, Singapore, 189767
Serco Switzerland SA	100%	62 Route de Frontenex Bis 86, 1208 Geneva, Switzerland
Serco Traffic Camera Services (VIC) Pty Limited	100%	Level 24, 60 Margaret Street, Sydney NSW 2000, Australia
Serco-IAL Limited	100%	Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom
Viapath Services LLP	33%	Francis House, 9 King's Head Yard, London, SE1 1NA, United Kingdom
Viapath Analytics LLP	33%	Francis House, 9 King's Head Yard, London, SE1 1NA, United Kingdom
VIAPATH Group LLP	33%	Francis House, 9 King's Head Yard, London, SE1 1NA, United Kingdom
Vivo Defence Services Limited	50%	Shared Services Centre Q3 Office, Quorum Business Park, Benton Lane, Newcastle-Upon-Tyne, NE12 8EX, United Kingdom

1 Serco Holdings Limited is directly owned by Serco Group plc. All other subsidiaries and associated undertakings are held indirectly via Group companies.

2 Companies in liquidation as at 31 December 2019.

3 Companies key to the consolidated numbers, all of which are engaged in the provision of support services.

4 Companies with a non controlling interest due to being consolidated in full as a result of considerations over control.

5 Formerly, Serco Hospitality Services L.L.C. Registered name changed to Serco Safety Services L.L.C. on 12th February 2020.

Appendix: Supplementary Information

Five-year record (unaudited)

	2019 £m	2018 £m	2017 (restated**) £m	2016 £m	2015 (restated*) £m
Adjusted Revenue	3,643.0	3,211.9	3,307.3	3,529	4,252
Less: Share of revenue of joint ventures and associates	(394.6)	(375.1)	(356.4)	(481)	(737)
Revenue	3,248.4	2,836.8	2,950.9	3,048	3,515
Underlying Trading Profit*	120.2	93.1	69.3	82.1	95.9
OCP and Contract and Balance Sheet Review adjustments	0.8	23.6	(24.2)	14.2	20.9
Include benefit from non-depreciation and amortisation of assets held for sale	–	–	–	0.5	11.7
Include other one-time items	12.4	–	–	3.5	9.0
Trading Profit*	133.4	116.7	45.1	100.3	137.5
Amortisation and impairment of intangibles arising on acquisition	(7.5)	(4.3)	(4.4)	(5.1)	(4.9)
Operating profit before exceptional items	125.9	112.4	40.7	95.2	132.6
Exceptional (loss)/profit on disposal of subsidiaries and operations	–	(0.5)	0.3	0.1	2.8
Other exceptional operating items	(23.4)	(31.4)	(19.9)	(70.6)	(190.3)
Operating profit/(loss)	102.5	80.5	21.1	24.7	(54.9)
Net finance costs	(21.8)	(13.9)	(11.2)	(12.6)	(31.9)
Exceptional finance income/(costs)	–	7.5	–	(0.4)	(32.8)
Other gains	–	–	0.7	–	–
Profit/(loss) before tax	80.7	74.1	10.6	11.7	(119.6)
Tax charge	(30.1)	(6.7)	(18.6)	(12.8)	(33.5)
Profit/(loss) after tax	50.6	67.4	(8.0)	(1.1)	(153.1)
Net Debt	(584.4)	(188.0)	(141.1)	(109.3)	(82.2)
	Pence	Pence	Pence	Pence	Pence
Earnings per share before exceptional items**	6.54	8.20	1.50	6.12	6.55
Basic earnings/(loss) per share**	4.31	6.16	(0.76)	(0.11)	(15.47)
Dividend per share	–	–	–	–	–

* The 2015 general and administrative expenses and net finance costs have been restated following the change in accounting policy regarding foreign exchange movements on investment and financing arrangements. No changes have been made to the comparative periods for 2014 and prior as it is impracticable.

** Results for the year ended 31 December 2017 have been restated to reflect the adoption of IFRS15 with effect from 1 January 2017. See note 2. No changes were made to earlier periods hence the results for the years ended 31 December 2016, 31 December 2015 and 31 December 2014 would need to be restated for the impact of IFRS9 and IFRS15 in order to be prepared in accordance with current International Financial Reporting Standards.

Shareholder Information

Our website

The Company's website, www.serco.com, provides access to share price information as well as sections on managing your shareholding online, corporate governance and other investor relations information.

Shareholder queries

Our share register is maintained by our Registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using one of the methods listed opposite.

American Depositary Receipts (ADRs)

Serco has established a sponsored Level I ADR programme. Serco ADRs are traded on the US over-the-counter market (SCGPY).

For queries relating to your ADR holding, please contact our ADR depository bank, Deutsche Bank Trust Company Americas.

Managing your shares online

Shareholders can manage their holding online by registering to use our shareholder portal at www.shareview.co.uk. This free service is provided by our Registrar, giving quick and easy access to your shareholding.

Electronic communications

We encourage shareholders to consider receiving their communications electronically which means you receive information quickly and securely and allows us to communicate in a more environmentally friendly and cost-effective way. You can register for this service online using our share portal at www.shareview.co.uk

Duplicate documents

Some shareholders find that they receive duplicate documentation due to having more than one account on the share register. If you think you fall into this group and would like to combine your accounts, please contact our Registrar, Equiniti.

Changes of address

To avoid missing important correspondence relating to your shareholding, it is important that you inform our Registrar of your new address as soon as possible.

Sharegift

If you have a very small shareholding that is uneconomical to sell, you may want to consider donating it to Sharegift (Registered Charity no.10526886), a charity that specialises in the donation of small, unwanted shareholdings to good causes. You can find out more by visiting www.sharegift.org or by calling +44 (0) 207 930 3737.

Dividend

Proposed final dividend

The Directors have recommended payment of a final dividend of 1.0p in respect of the year ended 31 December 2019, subject to approval by shareholders at the Annual General Meeting.

Key dates

Annual General Meeting	14 May 2020
Ex-dividend date	14 May 2020
Record date	15 May 2020
Payment date	5 June 2020

Dividend payment

Shareholders are encouraged to receive dividends directly to their bank or building society which saves paper, helping to minimise our environmental impact and reducing the cost of printing and delivery. Mandate forms are available at www.shareview.co.uk

Useful Contacts

Serco's registered office

Serco House
16 Bartley Wood Business Park
Bartley Way
Hook
Hampshire
RG27 9UY
United Kingdom

Telephone +44 (0)1256 745 900
Email investorcentre@serco.com

Registered in England and Wales No. 2048608

Group General Counsel and Company Secretary

David Eveleigh

Registrar

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
United Kingdom

Telephone 0371 384 2932 (from within UK)
+44 (0)121 415 7047 (from outside UK)
Lines are open 8.30am to 5.30pm
Monday to Friday. (excluding public holidays
in England and Wales)

Website www.shareview.co.uk

Shareholders can securely send queries via the website using the 'Help' section.

ADR depositary bank

Deutsche Bank Trust Company Americas
c/o American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn NY 11219
USA

Telephone +1 866 249 2593 (toll-free within USA)
+1 718 921 8124 (from outside USA)

Website www.adr.db.com
Email db@astfinancial.com

Brokers

JP Morgan Cazenove
Bank of America Merrill Lynch

Auditor

KPMG LLP

Unsolicited mail and shareholder fraud

Shareholders are advised to be wary of unsolicited mail or telephone calls offering free advice, to buy shares at a discount or offering free company reports. For further information on how shareholders can be protected from investment scams visit www.fca.org.uk/consumers/scams/investment-scams/ share-fraud-and-boiler-room-scams

Notification of major interests in shares (TR1 Forms)

Email cosec@serco.com

Legal Disclaimer

This Annual Report and Accounts contains certain statements which are, or may be deemed to be, 'forward-looking statements'. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, many of which are beyond Serco's control or influence, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. For a description of certain factors that may affect Serco's business, financial performance or results of operations, please refer to the Principal Risks and Uncertainties set out in this Annual Report and Accounts on pages 62 to 73. These forward-looking statements speak only as of the date of this publication. Past performance should not be taken as an indication or guarantee of future results and no representation or warranty, express or implied, is made regarding future performance. Except as required by any applicable law or regulation, Serco

expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this publication to reflect any change in Serco's expectations or any change in events, conditions or circumstances on which any such statement is based. Accordingly, undue reliance should not be placed on any such forward-looking statements.

Any references in this publication to other reports or materials, including website addresses, are for the reader's interest only. Neither the content of Serco's website nor any website accessible from hyperlinks from Serco's website, including any materials contained or accessible thereon, are incorporated in or form part of this publication.

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Visit us at emperor.works

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www.serco.com

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